CASE STUDY 10 DECEMBER 2013

Public Private Partnership: Pipavav Railways, Gujarat

Background:

Port Pipavav is located in the west coast of India, in Gujarat. Initially the port supported the functioning of minor port called *Port Albert Victor*. But in 1992, it was decided to develop the port into all-weather facility port so that it can handle bulk, liquid, cargo containers. For achieving this target a private limited company named Gujarat Pipavav Port Limited (GPPL) was incorporated as a joint venture between Sea King Infrastructure Limited (SKIL) and Gujarat Maritime Board, a state owned organisation.

However, efficient functioning of port Pipavav faced problems due to non-availability of rail connection to port. Therefore, development of proper rail connectivity, preferably a gauge link rail, was need of hour to realise benefits of port.

PPP Structure:

To meet increasing demand for rail connectivity to Pipavav port, in January 2000, Pipavav Railway Corporation Limited (PRCL) a joint venture between Ministry of Railways (MoR) and Gujarat Pipavav Port Limited (GPPL), with 50:50 partnerships, was formed by signing a Memorandum of Understanding (MoU) and registered under Companies Act 1956. Both the partners to Special Purpose Vehicle (SPV) contributed Rs 100 crore each towards equity and remaining amount was raised by PRCL through non-recourse debt.[1] PRCL was the first SPV under PPP.

PRCL entered into a concession agreement with MOR to own and operate 271 KM long board gauge railway line connecting Port of Pipavav to Surendranagar junction of western railways in Gujarat both for freight and passengers operation for concession period of 33 years. In addition to this, SPV has to pay lease rent of Rs 2 crore per year to Ministry of Railways for using land and other assets, in turn railways would pay a share of revenue collected freight moved on railway lines(after deducting operational expenses) to PRCL.

Apart from concession agreement, PRCL signed following agreements:

Contractual Agreement signed by PRCL[2]

Agreement	Parties	Date
Shareholders Agreement	MOR & GPPL	March 2001
Concession Agreement	MOR &PRCL	June 2001
Lease Agreement	MOR & PRCL	June 2001
Construction Agreement	PRCL&WR*(GOI)	March 2002
O&M Agreement	PRCL&WR*(GOI)	January 2003
Transportation and Traffic Guarantee Agreement	GPPL,WR*&PRCL	February 2003

*WR: Western Railways

According to Rail India and Technical Services (RITES), estimated cost of the project amounted to Rs 2,700 million, revised cost at 2001 prices was expected to increase to Rs 3,210 million (after accounting for lease of railways assets to SPV). Any cost over-run over and above estimated cost shall be on account of SPV. The operation and maintenance (O&M) of rail link was the responsibility of MoR. Along with this, Indian railways were entitled to provide rail connections along the length of line, in response to future expansion plans and SPV has to protect all assets of Indian railways for concession period.

Implementation Process:

PRCL had a debt-equity ratio of 1:2. The equity was divided between both parties and PRCL was responsible for mobilisation of resources through equity and debt and for implementation of project.

The project was divided into two segments:

(a) conversion of the existing meter gauge (MG) to broad gauge (BG) from Surendranagar to Rajula City (251 KM) - involved construction of 198 bridges;

[1] MoF (2009), "Position Paper on: The Railways Sector in India", Department of Economic Affairs, Ministry of Finance, Government of India.

[2] Jain, Rajan (2008), "Pipavav Railway Corporations: A case study on PPP in India", *Asian Institute of Traffic Development.*

(b) extension of the above line from Rajula City to Pipavav port- involved construction of 18 bridges.

Execution of the project involved 3 phases:[3]

I. ***Project Development Phase:*** Conversion of Surendranagar-Rajula MG line was approved to be completed at railways cost. However, fund allocation from Indian railways was very meagre, as it was not a priority project. Consequently, conversion of this route was not in co-ordination with the development of port plans. Finally the conversion of MG to BG came under PPP, as GPPL contribution was realised.

II. ***Construction Phase:*** The conversion phase started with signing of construction agreement on 13th March 2002 and involved procurement and transportation of material such as rails, signalling cables, joints, track fastening etc. to sites by PRCL, track laying and construction of new bridges for new lines by western railways, safety verification by western railways.

For placement of order, a strategy of splitting the orders of same item was adopted, where incentives were given to suppliers for supplies before time. By end of December 2002, work on both segments of project i.e. gauge conversion works and construction of new line between Rajula City and Pipavav was completed.

III. ***Operation Phase:*** After checking and testing of tracks and issue of safety certificate, the line was opened to freight traffic w.e.f. 31st March 2003. Later on operating segment of Indian railways was 'handed over' to an SPV for up gradation and revenue generation.

While the project was completed and got operational on time, the development of port got delayed by almost three years and as a result the committed minimum traffic could not achieved.[4]

Key Lessons

The case study provides several insights and benefits of PPP projects that need to be highlighted so that lessons can be drawn and applied wherever required.

Delays in approvals: Problems were encountered during process of implementation as this was first rail project base on PPP. The majority of problems were related to delays in signing of agreements with railways where main delay was in signing of construction agreement which took over one year.

Delays in Procurement: PPP project between GPPL and MoR faced problem of procurement delays, as most of the suppliers were committed to supply to Indian railways and were already behind schedules for supplies, and hence were not able to commit timely supply to PRCL.

Benefits to both Parties: Both the parties (MoR and GPPL) gained from the implementation of joint venture arrangement. Project was completed at lesser expenditure than if it was handled alone by MoR. Moreover, PRCL lines operate with approximately 800 workers, as compared to staff length of 1600 workers on the MG line. Thus, manpower requirement was scaled down, which led to cost savings. Additionally, if connectivity of rail to Pipavav port was left to western railways then it would have taken 6-7 years due to paucity of funds, whereas under PPP the project got completed on time as well as at lesser cost.

Co-ordination with port development: From the study we find that, although the construction of two stage rail lines was completed well on time but development of ports get delayed. Therefore, for projects like this co-ordination with port development is necessary to ensure proper efficient and timely linkage of rails to port.

Better Forecasting: PRCL's profit and loss statements and balance sheet for 2003-04 shows that it incurred losses of Rs 32.96 crore and that of 2004 -05 shows a loss of Rs 24.72 crore. The principal reason for this is the low cargo originating/destined from GPPL, as traffic density was much lower than guarantee of 1MT and 2MT respectively for given years. Thus, Traffic forecasting needs to be more realistic with greater accountability of the agency doing the forecasting.

Recent Updates (up to September 2013)

Although in initial periods of its operation PRCL incurred losses for few years, but according to recent update, the company has registered a profit of Rs 46.41 crore (after tax) and net worth of Rs 207 crore as on 31st March 2013. Despite economic slowdown, as compared to 2011-12, company experienced a growth of 18 per cent and paid maiden interim dividend of Rs 4.90 crore to Ministry of railways for year 2013-14.[5]

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[3] Jain, Rajan (2008).
[4] MoF (2009).
[5] Data from PRCL website: http://www.pipavavrailway.com, accessed on 12 December 2013.