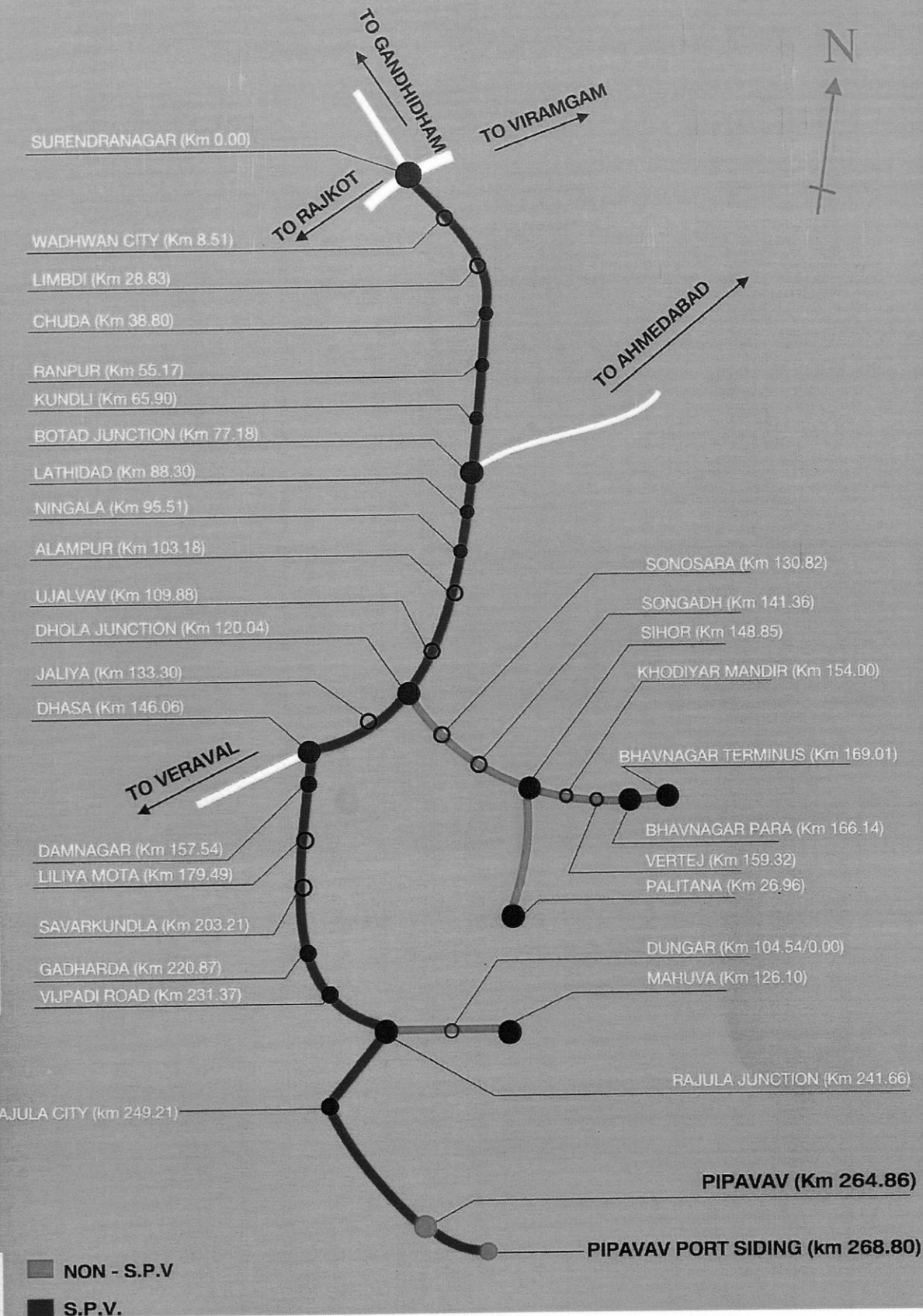


# PRCL RAILWAY NETWORK

## DISTANCES ON PRCL SECTION



**Annexure - B**  
**Salient Features of PRCL Shareholders Agreement**

Item	
GPPL	Has necessary licences approvals and consents to carry out its obligations under the agreement. Guarantees minimum annual aggregate quantity of cargo of 1, 2, and 3 MT in the first three years and 3 MT annually for subsequent years till concession period.
MOR	All the actions taken by MOR as a shareholder will be commercial acts and not 'sovereign' acts. Will provide required wagons to move the guaranteed traffic.
Scope of Business	All works of gauge conversion and additional new line from Rajula to Pipavav. MOR through WR to operate and maintain the assets created. PRCL to perform marketing efforts and collect through MOR all the revenues generated from the facilities created.
Share Capital	Authorised capital of PRCL was Rs.5 crore. (This was subsequently raised to Rs.300 crore). Shareholding pattern: GPPL 50% and MOR 50%. Expenses incurred by MOR and GPPL on project execution will be adjusted against their equity.
Management of the Company.	A Board of Directors will be responsible for management, direction and control of the Company. A management team under a CEO will carry out day to day business. CEO will be ex officio Director on the Board.
Board of Directors.	A minimum of four and maximum 12 members. CEO to be a professional from open market. A shareholder can nominate a Director for each 8% shareholding.
Meeting of Board.	Each Director has one vote. Affirmative vote of at least one nominee Director of each party required for making decisions concerning: a. amendment to Articles of Association; b. Commencement of new line of business or change in its nature; c. Merger, bankruptcy, winding up, etc.; d. Deviation from last approved business plan and budget beyond 15% of each line item; e. Formation of Subsidiary or any Joint Venture; f. Sale or disposal of assets (more than 10% of gross assets).
Chairman	MOR will nominate a working officer of railways till its shareholding remains at least 26%.

Risk allocation model adopted from Chan et al. (2011, p. 140):

Risk group	Risk	Risk description	Risk allocation
Systematic risk category			
Political risks	Government corruption	The behaviour of the corruption of government officials will increase the cost of keeping the relationships between the government and the project company. Meanwhile, it will increase the risk of contract breaking by the government.	Public
	Government intervention	Government officials intervene in the project operations directly, which will affect the autonomy of private investors' decision making.	Public
	Nationalization/ expropriation	Central or local government seizes the projects.	Public
	Public credit	The rejection of government to implement the responsibilities agreed in the contract, which brings direct or indirect damages	Public
	Poor public decision-making process	Non-standardized procedures, bureaucracy, lacking of PPP project experience and ability, insufficient preparation and information asymmetry, leading to poor decision making.	Public
Economic risks	Interest rate fluctuation	The loss of PPP projects arising from the uncertainties of the interest rate volatility.	Private
	Foreign exchange fluctuation	The risk of the variability of foreign currencies exchange and the foreign currencies exchangeability risk.	Private
	Inflation	The increase of the price level of the commodities, the decrease of purchasing power of currencies, which cause the increase of cost and other consequence.	Private

	Financing risk	The risk arising from the irrational financing structure, unsound financial market, and difficulty in financing.	Private
Legal risks	Legislation change	Change of law and regulations and other government macroscopic economic policies will cause the increase in project costs and decrease in revenue, etc.	Public
	Imperfect law and supervision system	The damage arising from the current PPP legislation which is low level, low effectiveness, conflict bearing, and poor operability.	Public
	Change in tax regulation	The change in tax regulation of central or local government.	Public
Social risks	Political/public opposition	For various reasons leading to the public interest being unprotected and damaged, which, as a consequence, causes political and even public opposition to the risk of the project construction.	Public
Natural risks	Force majeure	Before signing contract, the contract party cannot control or prevent reasonably. When the events happen, the situation cannot be escaped or conquered, such as a worker strike, or other unforeseen items that are not "natural" risks.	Public
	Unforeseen weather/geotechnic	Because of the project site's bad natural conditions, for example, climate condition, special geographical environment, and poor site conditions, etc.	Private
	Environment risk	Because of the increasing requirement of the government or social organization regarding the environment protection, risk generated from the project cost increase, delay in work schedule, or other loss.	Equally shared
<b>Specific project risk category</b>			

Construction risks	Completion risk	Project delay and cost overrun, etc., which cause insufficient cash flow and inability to pay off debts on time.	Private
	Material/labour non-availability	Loss because of delay in raw materials, resources, machines and equipment, or energy supply.	Private
	Unproven engineering techniques	The techniques adopted are immature and cannot fulfil the standards and requirements as expected, or the techniques are of poor applicability which makes private investors to reinvest for the technology improvement.	Private
Operation risks	Project/operation changes	Poor constructability in design phase, design error or vagueness, standards and contracts variation, owners' variation leading to the project, or operation changes.	Private
	Operation cost overrun	Government raises the standard of the products or services leading to the cost overrun by the noncommercial factors such as increase in interest rates, exchange rates or force majeure, or poor operation management.	Private
	Price change	Price of PPP products or services are too high, too low, or inflexible to adjust, leading to the revenue of the project company lower than expected.	Private
	Expense payment risk	Infrastructure of the project or the process of the service provision is affected by other factors which prevents the timely payment of the client's (or government's) fees.	Private
Market risks	Market competition	An actual market competition of the existing project caused by the new project or rebuild project of government or other investors.	Public

	Change in market demand	Apart from the risk from arising from market competition, factors attributed to macroeconomics, social environment, change in population, adjustment of laws, and regulations leading to the change in market demand.	Private
Relationship risks	Third-party delay/violation	Apart from government or private investors, other project participants do not implement the responsibilities agreed in the contract or project delay.	Private
	Organization and coordination risk	Because of the insufficient coordination ability of project company, the cost of communication among project participants increases and conflicts occurs.	Private
	Inability of the concessionaire	The insufficient ability of the concessionaire leading to low productivity of project construction and operation.	Private
Other risks	Land acquisition	The increase in project cost and extension of project duration caused by the difficulty of acquiring the rights of the land. The cost and time for land acquisition exceeds the original plans.	Public
	Delay in project approvals and permits	Complicated procedures are required for project approval with high cost and long time. Upon approval, it is very difficult to proceed business adjustments regarding the project scope and nature.	Public
	Conflicting or imperfect contract	The risk of the contract with inaccuracy, vagueness, inflexibility, inconsistency, inequitable risk-sharing, unclear division of responsibility, etc.	Private
	Lack of	The risks generated by the unavailability of the supporting facilities of the project.	Public

	Residual risk	Investors overuse the resources like equipment or other technical conditions, etc., which cause insufficient materials and equipment with depreciation at the end of the concession period. As a consequence, it affects the continuous operation of the projects.	Private
	Inadequate competition for tender	The risk includes unfair, non-transparent tendering process, incomplete tender information, insufficient number of tenders, vicious market competition, and bidding lowest price to win the tenders.	Public

## Annexure-D

### Set of Concerns by PRCL

PRCL started operations from March 2003. They could not meet the traffic guarantee in the early years of operation, primarily due to GPPL offering low traffic. Sometime in late 2005, after a couple of years of operation, the Managing Director of PRCL made the following suggestions for the Concession Agreement and the Shareholders Agreement:

#### Concession Agreement

- SPV company should be given the right to commercial exploitation of project assets including land, buildings, etc. (Clause 4.2)
- SPV company should be given power to quote freight rates on its line. (Clause 4.2)
- MOR should charge lease rent in respect of assets leased to SPV at par with the lease rent charged from other SPV like HMRDC and KRCL. (Clause 4.4)
- SPV company should be given the right to mortgage the project assets developed by it on the project as security with the lenders for raising debt for the project. (Clause 4.3)
- SPV company should be given power to appoint its own agency for construction, operation and maintenance of the railway line. (Clause 4.3)
- SPV company should be paid access charges for running passenger trains and trains of other parties on its line. (Clause 4.4)

#### Shareholders Agreement

- Shareholders should bring their equity contribution in full before the raising of debt by the company or at least give bank guarantee for the balance equity. (Clause 8.1)
- In case the full equity contribution is not brought by the shareholders, the company should issue partly paid up shares and make cash calls to the shareholders in three stages (Clause 8.3):
  - 25% of the face value of the share should be called immediately after formation of the company as application money
  - 25% of the face value of share should be called at the time of allotment of the shares.
  - 50% of the face value of the share should be called as per funds



requirements of the project as call money.

- In case of default in payment of cash calls, the company should be allowed to forfeit the shares and reissue them to new persons.
- Interest on the delayed payment of cash calls should be equal to prime lending rate of State Bank of India. (Clause 9.2)
- Traffic guarantee should not be a condition for either shareholder. (Clause 21.4)
- Traffic projections for the project should be realistic and it should not be inflated just to raise debt from the lenders which later on become difficult to realize.
- In case the company is not able to generate sufficient revenue in the initial years of commercial operations to service the debt, the shareholders should ensure adequate cash inflows for the company. This should be incorporated in the SHA.
- SPV should be headed by a person designated as MD/CEO who should be a member of the Board and should have voting powers like other Directors. (Refer clause 6.6)
- MD will work under the control of Board of Directors represented by all the shareholders. (Clause 6.6.3)
- The Directors nominated by the shareholder should not interfere in the day to day functioning of the company. (Clause 6.3)
- MD should be given adequate power to run the company professionally. (Clause 5.3)
- Expenses incurred by a shareholder on the project may be capitalized after it is review by an independent accounting firm and not necessarily the auditor appointed by the other shareholder. (Clauses 4.4 and 4.5)
- Expenses related to traveling and lodging incurred by Directors in attending Board meetings committee should be borne by the company. (Clause 6.2.3)
- Debt for the project should be raised by the company and not by the private shareholders. (Clause 8.7)
- The company should be allowed to go for IPO to raise funds from the market after first year of commercial operation date. (Clause 12.6.7)
- Arrangements for viability gap funding —

- by Government?
- by Shareholders?
- SHA should provide for infusion of additional equity of gap funding by both shareholders in case of delay in viability.
- Staffing pattern of new line be decided by the company and not by IR. Allow free run of automation and mechanical maintenance. If necessary by private professional agencies other than IR.

**PIPAVAV RAILWAY CORPORATION LIMITED**

**Financial Results (Amount in crore)**

Sl. No.	Particulars	2003-04	2004-05	2005-06	2006-07	2007-08	2008-09	2009-10	2010-11	2011-12	2012-13	2013-14
1	From Traffic (Net of discount/incentive)	5.16	9.30	18.97	40.79	42.99	37.74	59.43	89.56	151.28	178.97	221.74
2	Traffic Guarantee Shortfall	9.39	19.97	32.15	23.40	22.80	30.64	17.16	-	-	-	-
3	Income from Container Operation	-	-	-	-	-	-	0.02	-	-	-	-
4	Other Income	4.45	0.97	0.34	3.40	1.49	0.75	3.71	1.88	1.75	6.76	2.66
5	<b>Total Income (1 to 4)</b>	<b>19.00</b>	<b>30.24</b>	<b>51.46</b>	<b>67.59</b>	<b>67.28</b>	<b>69.13</b>	<b>80.32</b>	<b>91.44</b>	<b>153.03</b>	<b>185.73</b>	<b>224.40</b>
6	<b>Expenditures</b>											
7	Operating Expenses	11.65	16.15	20.28	21.46	26.02	45.26	64.09	54.36	78.60	93.86	107.02
8	Administrative and Other Expenses	3.90	2.17	2.20	2.44	2.46	3.85	2.73	2.68	3.04	3.07	3.68
9	Lease Rent to Western Railway	1.98	1.98	1.98	1.98	1.98	1.98	1.98	1.98	1.98	1.98	1.98
10	Provisions for doubtful debts and advances	-	-	-	-	-	-	-	12.17	6.74	-	-
11	Impairment Loss	-	-	-	-	-	-	-	-	-	-	7.38
12	<b>Total Expenditures (7 to 11)</b>	<b>17.53</b>	<b>20.30</b>	<b>24.46</b>	<b>25.88</b>	<b>30.46</b>	<b>51.09</b>	<b>68.80</b>	<b>71.19</b>	<b>90.36</b>	<b>98.91</b>	<b>120.06</b>
13	<b>Profit/Loss before interest &amp; depreciation (5-12)</b>	<b>1.47</b>	<b>9.94</b>	<b>27.00</b>	<b>41.71</b>	<b>36.82</b>	<b>18.04</b>	<b>11.52</b>	<b>20.25</b>	<b>62.67</b>	<b>86.82</b>	<b>104.34</b>
14	Cost of Finance (Including interest on O&M cost)	20.37	20.77	16.57	20.35	23.73	19.21	16.33	16.59	13.73	4.08	0.00
15	Depreciation	14.06	13.90	14.60	14.71	14.40	14.39	14.69	14.91	14.48	15.31	14.96
16	<b>Total (14+15)</b>	<b>34.43</b>	<b>34.67</b>	<b>31.17</b>	<b>35.06</b>	<b>38.13</b>	<b>33.60</b>	<b>31.02</b>	<b>31.50</b>	<b>28.21</b>	<b>19.39</b>	<b>14.96</b>
17	<b>Net Profit/(Loss) before taxation and Exceptional &amp; Prior Period items (13-16)</b>	<b>(32.96)</b>	<b>(24.73)</b>	<b>(4.17)</b>	<b>6.65</b>	<b>(1.31)</b>	<b>(15.56)</b>	<b>(19.50)</b>	<b>(11.25)</b>	<b>34.46</b>	<b>67.43</b>	<b>89.39</b>
18	Exceptional and Prior Period Items	-	-	-	-	-	(8.28)	1.47	14.70	9.21	(0.08)	(7.19)
19	Provision for taxation	-	-	(0.03)	(0.04)	(0.04)	-	-	-	11.63	(20.94)	15.81
20	<b>Net Profit/(Loss) (17-18-19)</b>	<b>(32.96)</b>	<b>(24.73)</b>	<b>(4.20)</b>	<b>6.61</b>	<b>(1.35)</b>	<b>(23.84)</b>	<b>(18.03)</b>	<b>3.45</b>	<b>55.30</b>	<b>46.41</b>	<b>80.77</b>
21	<b>Accumulated (losses)/Profits</b>	<b>(32.96)</b>	<b>(57.69)</b>	<b>(61.89)</b>	<b>(55.28)</b>	<b>(56.61)</b>	<b>(80.45)</b>	<b>(98.49)</b>	<b>(95.03)</b>	<b>(39.73)</b>	<b>6.67</b>	<b>87.45</b>
22	Dividend Distribution	-	-	-	-	-	-	-	-	-	-	9.80
23	Tax on Dividend Distributed	-	-	-	-	-	-	-	-	-	-	1.67
24	<b>Balance of Profit/(Loss) (21-22-23)</b>	<b>(32.96)</b>	<b>(57.69)</b>	<b>(61.89)</b>	<b>(55.28)</b>	<b>(56.61)</b>	<b>(80.45)</b>	<b>(98.49)</b>	<b>(95.03)</b>	<b>(39.73)</b>	<b>6.67</b>	<b>75.98</b>
25	Equity Share Capital	156.78	168.78	193.66	196.00	196.00	196.00	196.00	196.00	196.00	196.00	196.00
26	<b>Net-worth (24+25)</b>	<b>123.82</b>	<b>111.09</b>	<b>131.77</b>	<b>140.72</b>	<b>139.39</b>	<b>115.55</b>	<b>97.51</b>	<b>100.97</b>	<b>156.27</b>	<b>202.67</b>	<b>271.98</b>
27	<b>Percentage of Net worth over Capital (26+25)</b>	<b>79%</b>	<b>66%</b>	<b>68%</b>	<b>72%</b>	<b>71%</b>	<b>59%</b>	<b>50%</b>	<b>52%</b>	<b>80%</b>	<b>103%</b>	<b>139%</b>

*Note: The above figures should be read together with the disclosures made in the annual report(s) of the company for respective financial year(s).*