

DEVELOPMENT OF A RISK MITIGATION FRAMEWORK FOR PPP HIGHWAY INFRASTRUCTURE PROJECTS IN INDIA

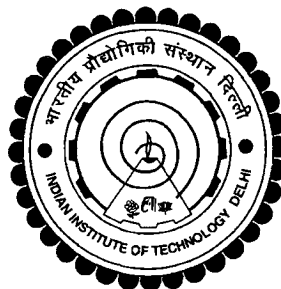
by

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Submitted
in fulfillment of the requirement of the degree of

DOCTOR OF PHILOSOPHY

to the



INDIAN INSTITUTE OF TECHNOLOGY DELHI
HAUZ KHAS, NEW DELHI 110016, INDIA
JANUARY 2010

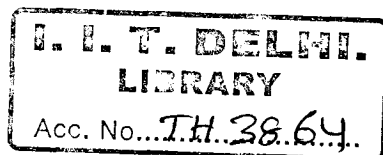
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Dedicated

to

the memory of my late parents

Usman and Kamalamma

CERTIFICATE

This is to certify that the thesis entitled “**Development of a Risk Mitigation Framework for PPP Highway Infrastructure Projects in India**” being submitted by Mr. Mohammed Sagheer to the Indian Institute of Technology, Delhi for the award of the degree of Doctor of Philosophy is a bonafide record of the research work carried out by him under my supervision and guidance. The thesis work, in my opinion, has reached the required standard, fulfilling the requirements of the said degree. The results contained in the thesis have not been submitted, in part or full, to any other University or Institute for the award of any degree or diploma.



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ACKNOWLEDGEMENTS

I am immensely grateful to my supervisor, Prof K. Chandrashekhar Iyer for his stimulating guidance, unwavering support and encouragement. This thesis could not have attained its present form, both in content and presentation, without his active interest, direction and guidance. His bountiful energy and personal care has been a source of great inspiration. He devoted his invaluable time and paid immense attention in keeping me motivated.

I express my gratitude to Prof. S.S. Yadav, Head, Department of Management Studies and member of Student Research Committee (SRC) for giving valuable suggestions and words of encouragement.

I am thankful to Prof K.G. Sharma, Department of Civil Engineering (Chairman, SRC) and Prof. B.B. Bhattacharya, Department of Civil Engineering (Member, SRC) for all the guidance and helpful insights throughout my research work.

I gratefully acknowledge the inputs of several experts from the industry who responded to my questionnaire and shared their rich experience. Special thanks in particular to Mr. Ashok Aggarwala of Oriental Structures and Engineers, Mr. S.L. Verma of Reliance Infrastructure Ltd and Mr. Parvesh Minocha of Feedback Ventures.

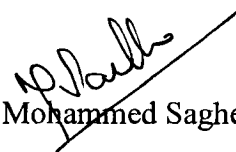
I sincerely thank Mr A.K. Jain, Former Member (Finance), National Highway Authority of India and Mr Jitesh John, Senior Research Officer, Planning Commission, New Delhi for sharing the legal and regulatory issues.

I am thankful to my fellow scholars; Mr Pramod V.Ram, Mr Nitin B. Chaphalkar and Mr Ramesh Anbanandam for their support and cooperation. Sincere thanks to Mr Vikram, Mr Biswas, Mr C.V. Singh and other staff members of Department of Civil Engineering and Department of Management Studies for their cooperation and support.

Special appreciation and indebtedness to my late father, Usman, for his spiritual support, love and encouragement and to my late mother, Kamalamma, for her unwavering love, care, support and encouragement. They taught me the values of education, integrity and determination.

I gratefully acknowledge the support of my sister, Saira and family and my in-laws who remain a continuous source of inspiration.

To my wife and fellow scholar, Silpa, for her love, understanding, support and sacrifices; in those difficult times, your words of love and affection have renewed my energies to keep me going.


Mohammed Sagheer

ABSTRACT

In the recent years, reliance on public financing mechanisms for road transportation infrastructure have diminished as these have proved to be grossly inadequate to keep pace with the escalating demand. Public Private Partnerships are increasingly viewed as a part of the solution to this problem. Such partnership between public and private sector is mutually beneficial as the financial engineering skills, innovation and efficiency of the private sector is leveraged for the provision of public infrastructure. In a scenario where PPP projects with long gestation period have come to be largely relied upon for infrastructure development, it is necessary that risk mitigation mechanisms be designed to ensure stakeholders' security. This situation presents a research opportunity to study and develop new risk mitigation mechanisms, which provide more flexibility to the project participants.

A review of the Model Concession Agreement (MCA) applicable for Build-Operate-Transfer (BOT) road projects in India identifies that development phase risks, length of concession period, financing decisions and traffic risks during operational phase are the most vital elements affecting the project viability. A total of 17 risks affecting the development phase of a BOT project are identified and analyzed to determine their extent of criticality. Time overrun, cost overrun and delay in financial closure are found to be the most critical risks in the development phase. Since time and cost overrun can adversely affect the financial viability of a BOT project, a framework based on Kalman filter has been developed to assess the time and cost overruns in the development phase that enables timely corrective action. An optimal concession duration is a prerequisite to ensure that the concessionaire earns a reasonable return

on investment, while averting windfall gains. A simulation model incorporating the deterministic and stochastic parameters has been developed to determine an optimal concession period for a BOT project. To aid a faster financial closure, a genetic algorithm based multi objective constrained optimization model has been developed to arrive at an optimal capital structure for projects. This model also facilitates to improve the bid winning potential of the prospective concessionaire. To mitigate traffic risks during the operations phase, a real options based method has been developed to design traffic guarantee mechanisms. The models have been demonstrated through a live BOT road project in India.

Keywords: *Build Operate Transfer, PPP risks, Interpretative structural modeling, Kalman filter, Monte Carlo simulation, capital structure decision, Genetic Algorithm, Real options.*

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