K.J. SOMAIYA INSTITUTE OF MANAGEMENT STUDIES & RESEARCH
PGDM / MMS - ELECTIVE
Project Management (Finance Part)

Marks : 25 Time : 1.5 Hours Date : 03/04/2018

Note: Q1 is compulsory and carry 20 marks and solve any one from rest.

1. Read the following news article from a business daily and answer any four question.

L&T says not investing in BOT projects anymore

Feb 08, 2018 09:34 AM IST | Source: Moneycontrol.com

Larsen & Toubro (L&T), India's largest engineering and construction firm said it will not be investing anymore on build, operate and transfer (BOT) projects citing delayed return on investment (ROI), lack of flexibility in concessionaire agreements, and legal disputes with government.

L&T said it will confine itself to less risky engineering, procurement and construction (EPC) contracts that do not require capital investments, unlike BOT projects.

"We are not investing anymore in BOT projects," said SM Subrahmanyan, Chief Executive Officer and Managing Director of L&T, speaking to Moneycontrol on the sidelines of the company's recent third quarter results.

"It's a lot of money invested and returns are taking too long and then you are operating within the confines of concessionaire agreement, which has got clauses which are not positively reactive at times," Subrahmanyan said.

Subrahmanyan also expressed concern over increasing difficulties faced by infrastructure developers due to rise in government litigation.

"In government system today to go settle something across the table is becoming near impossible. It goes through dispute adjudication board, arbitration, sometimes court cases. You can't run a balance sheet of profit and loss account sitting in the courts," Subrahmanyan said.

"If I have lost money, if I have won it (the litigation) I have to get the money back, I can't keep fighting court cases to win the money back," he said.

L&T’s own experience with BOT projects hasn’t been great.

The company's BOT division called as Development Projects segment has assets in power, Hyderabad Metro, Kattupalli Port in Chennai and some road projects.

L&T's single largest BOT project is the Rs 16,375 crore Hyderabad Metro Rail where it is investing its own money worth Rs 3,439 crore, in addition to debt funding of Rs 11,478 crore.

L&T will get Rs 1,458 as viability gap funding (VGF).

The project is running two years behind the schedule due to issues of getting right of way, and Telangana government's proposal for certain alignment changes in middle of execution on grounds that metro may cause damage to heritage structures.

According to a report by credit rating firm CRISIL - India needs to spend at least Rs 50 lakh crore in next five years through the year 2022 to develop infrastructure. The country will see close to Rs 3,000 crore investment per day.

To be sure all that investment can't be borne out by the government given its other priorities. If companies like L&T with strong balance sheet and execution capabilities keep away from asset development – it doesn't augur well for the Indian economy at time when the private investment is at lowest ebb.

Question (Any Four) (4x5=20)

a) What is BOT projects? What are the short comings of BOT projects? Explain in light of above article.
b) What are the critical success factors of a BOT project?
c) What is Hybrid Annuity Model? How can this model fulfil the growing demand of infrastructure?
d) What is Viability Gap Funding? Explain
e) What are the Advantages of BOT projects?

2. PRB infrastructure is considering a project with investment outlay of 140 million. It consist of Rs 90 million on fixed asset and Rs50 million on net working capital. The entire outlay will be incurred at the beginning of the project. The project will be financed with Rs 55 million of equity capital and Rs 85 million of debt capital. Debt capital will carry an interest of 12%. The life of the project is expected to be 5 years. At the end of the 5 years, fixed asset will fetch a net salvage value of Rs 30 million whereas net working capital will be liquidated at its book value.

The project is expected to generate revenue of Rs 120 million per year. The cost of sales (This includes all items of cost other than depreciation, interest and Tax) of the project is expected to be Rs 90 million per year. The effective tax rate will be 30%. Calculate the cash flow generated from of the project each year. If cost of equity is 15%. Calculate the NPV of the project. Marks 5

3. ABN Limited is considering an infra project for which it proposes to employ a debt-equity ratio

Of 2:1. Its pre-tax cost of debt will be 10% and its expected tax rate is 30%.

There are three firms P, Q and R engaged wholly in infrastructure business. Their equity betas and debt-equity ratio are as follows:

	Equity Beta	Debt-Equity ratio
P	1.25	2.25

Q	1.15	2.00
R	1.10	2.10

The risk-free rate is 6 % and the expected return on the market portfolio is 14%. What should be the required rate return of Impex project?

Marks 5

Slm method