

<b>Name:</b>	
<b>Enrolment No:</b>	

**UNIVERSITY OF PETROLEUM AND ENERGY STUDIES**  
**End Semester Examination, December 2018**

**Course: Financing Infrastructure Projects**

**Semester: III**

**Program: MBA-General Management**

**Code: FINC 8012**

**Time: 03 hrs.**

**Max. Marks: 100**

**Instructions:** This question paper is divided into four sections A, B, C and D. Section A; Section B has 20 marks each, and Section C and Section D are of 30 marks each.

**SECTION A**

S. No.		Marks	CO1
<b>Q 1</b>	<b>Explain the following concepts related with infrastructure financing in India:</b>		
a.	Cross ownership in airport bidding	<b>02</b>	
b.	Name some of the community centered social development projects in India	<b>02</b>	
c.	Explain in brief the KRCL model	<b>02</b>	
d.	Concept of Termination cost	<b>02</b>	
e.	Characteristics of Infrastructure Sector as Rangarajan Committee	<b>02</b>	
f.	Two Price Setting Approaches	<b>02</b>	
g.	Public Utilities consist of two characteristics	<b>02</b>	
h.	Non-Recourse Financing	<b>02</b>	
i.	Risk Identification techniques	<b>02</b>	
j.	Concept of Risk Response for Risk Analysis	<b>02</b>	

**SECTION B**

Q.2	Short Answer Questions. Attempt Any Four Questions	Marks	CO2
a.	Explain the key transaction objectives of GoI in relation to the airport bidding.	<b>05</b>	
b.	A machine can reduce annual cost by \$40,000. The cost of the machine is 223,000 and the useful life is 15 years with zero residual value. Required: 1. Compute internal rate of return of the machine. 2. Is it an acceptable investment if cost of capital is 16%? (Please use Present Value of an Annuity table)	<b>05</b>	
c.	Discuss the different phases of Life Cycle Cost Model.	<b>05</b>	
d.	Difference between corporate finance and project finance.	<b>05</b>	
e.	Draw and discuss briefly the project finance structure.	<b>05</b>	
f.	What are the methods of project finance for infrastructure projects.	<b>05</b>	

**SECTION-C**

Q.3	Long Answer questions. Attempt Any Two Questions.	Marks	CO3																				
A.	<p>Your company is considering whether it should tender for two contracts (MS1 and MS2) on offer from a government department for supply components for the development of road project. The company has three options:</p> <ul style="list-style-type: none"> <li>tender for MS1 only; or</li> <li>tender for MS2 only; or</li> <li>tender for both MS1 and MS2.</li> </ul> <p>If tenders are to be submitted the company will incur additional costs. These costs will have to be entirely recouped from the contract price. The risk, of course, is that if a tender is unsuccessful the company will have made a loss.</p> <p>The cost of tendering for contract MS1 only is £50,000. The cost of the project if the tender is successful would be £18,000.</p> <p>The cost of tendering for contract MS2 only is £14,000. The project cost if the tender is successful would be £12,000.</p> <p>The cost of tendering for both contract MS1 and contract MS2 is £55,000. The project cost if the tender is successful would be £24,000.</p> <p>For each contract, possible tender prices have been determined. In addition, subjective assessments have been made of the probability of getting the contract with a particular tender price as shown below. Note here that the company can only submit one tender and cannot, for example, submit two tenders (at different prices) for the same contract.</p> <table border="1" data-bbox="305 1037 1190 1371"> <thead> <tr> <th>Option</th> <th>Possible Tender Prices (£)</th> <th>Probability of getting contract</th> </tr> </thead> <tbody> <tr> <td rowspan="2">MS1 Only</td> <td>130,000</td> <td>0.20</td> </tr> <tr> <td>115,000</td> <td>0.85</td> </tr> <tr> <td rowspan="3">MS2 Only</td> <td>70,000</td> <td>0.15</td> </tr> <tr> <td>65,000</td> <td>0.80</td> </tr> <tr> <td>60,000</td> <td>0.95</td> </tr> <tr> <td rowspan="2">MS1 &amp; MS2</td> <td>190,000</td> <td>0.05</td> </tr> <tr> <td>140,000</td> <td>0.65</td> </tr> </tbody> </table> <p>In the event that the company tenders for both MS1 and MS2 it will either win both contracts (at the price shown above) or no contract at all.</p>	Option	Possible Tender Prices (£)	Probability of getting contract	MS1 Only	130,000	0.20	115,000	0.85	MS2 Only	70,000	0.15	65,000	0.80	60,000	0.95	MS1 & MS2	190,000	0.05	140,000	0.65		
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	<ul style="list-style-type: none"> <li>What do you suggest the company should do and why?</li> </ul>	05																					
	<ul style="list-style-type: none"> <li>What are the downside and the upside of your suggested course of action?</li> </ul>	05																					
	<ul style="list-style-type: none"> <li>A consultant has approached your company with an offer that in return for £20,000 in cash she will ensure that if you tender £60,000 for contract MS2 only your tender is guaranteed to be successful. Should you accept her offer or not and why?</li> </ul>	05																					
B.	<p>(i) "Fixed-Price contracts and competitive bidding have become standard features of public procurement. But to best manage contractual flexibility, cost-plus contracts may be preferable." Discuss the given statement with respect to price setting for bidding for projects of infrastructure sector.</p>	05	10																				

	(ii) Discuss the economics of discriminatory charging (Pricing) for infrastructure project and explain that how does this concept help in price setting for bidding the infrastructure project.		
C.	<p>“With reference to the IL&amp;FS Crisis, it is suggested the new team has to look for longer-term solutions. Insurers and pension funds with long-term money could provide steady flow of capital” With respect to the given statement explain the following:</p> <ol style="list-style-type: none"> <li>The IL&amp;FS Crisis</li> <li>Various sources of finance and their role in solving the IL&amp;FS Crisis.</li> <li>Highlight the fundamental issues in the project financing of infrastructure projects in India and the way forward.</li> </ol>	05 05 05	
D.	Discuss and explain various risk analysis methods involved in Infrastructure projects financing.	15	

**SECTION-D**

Q	Read the case carefully and Answer the questions that follow:	Marks	CO4
	<p style="text-align: center;"><b>Indian Railways Catering and Tourism Corporation</b></p> <p>IRCTC was created in 1999 with a paid up capital of Rs. 200 million for developing the hospitality sector in IR through the involvement of the private sector. It has since diversified its business in Internet ticketing, commercial exploitation of space at stations and establishing a chain of budget hotels on railway land. Earlier, departmental catering services were running at a loss and fresh investments were required for modernization. IRCTC uses various models of private partnerships such as outsourcing, O&amp;M contracting, business contracts, licensing and commercial leasing. It is also mandated to market the existing Yatri Niwas railway hotels, hill railways and other isolated lines with tourism potential, and to conserve Rail Heritage.</p> <p>In all the above-mentioned business activities, IRCTC is adopting PPP as primary strategy. It has established packaged water brand ‘Rail Neer’ with the state of art plants at Nangloi in Delhi and Danapur in Bihar. The plants are owned by IRCTC with the investments of Rs. 40 million per plant. They are being operated and maintained by O&amp;M contractor, Ion Exchange Ltd. The Transport Corporation of India does transportation and distribution. All its investments are funded through equity funds, surplus generation and private partners. The business model of the business risk is borne by the private partners. The business model of IRCTC carries no market risk as IR provides the captive market and most of the business risk is borne by the private partners. The Railway Board issues all the licensing policy and guidelines. It is the first Public Sector Undertaking to pay a dividend in the very first year of commercial operation. Its turnover is increasing with an average growth rate of about 100% from 2003-04 till 2005-06 and earned Rs. 19.78 crores of net profit in 2005-06. It has taken over the loss making catering services of Indian Railways along with its staff and is now earning a profit out of it. All initiatives taken by IRCTC so far have been highly profitable. It has succeeded in expanding the usage of information technology in ticketing. IRCTC represents the largest e-commerce business in India. It has enabled business tie-ups with banks, mobile phone services, credit card and cash card companies etc. which could not have been possible in a monolith IR organization.</p>		

	IRCTC's success establishes that the captive market for peripheral services provided by IR is a low risk high return business opportunity for PPP. Privatization and outsourcing through an intermediate PSU is politically more acceptable than if done directly. PSUs are also better suited to carry out the large number of tie-ups involved. Evaluate the above case-let on the basis of following:		
a.	Type of project	<b>05</b>	
b.	Need for PPP	<b>05</b>	
c.	Form and structure PPP	<b>05</b>	
d.	Nature of funding	<b>05</b>	
f.	Success and Failures	<b>05</b>	
g.	Lessons learnt	<b>05</b>	