

**GOVERNMENT OF INDIA
MINISTRY OF ROAD TRANSPORT & HIGHWAYS.**

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No. NH-24035/23/97-PL. (Vol. III)

the 12th January, 2001

To:

1. The Secretaries (PWD/Roads)
All State Governments/UTs dealing with National Highways and other Centrally Sponsored Schemes.
2. Chief Engineers of States/UTS dealing with National Highways and other Centrally Sponsored Schemes.
3. Director General (Border Roads)
Kashmir House.
New Delhi.
4. Chairman, National Highways Authority of India,
1, Eastern Avenue, Maharani Bagh, New Delhi

Subject: Prequalification criteria for bidders for small BOT Projects of cost upto Rs.100 crore.

Sir,

The fast growing Indian Economy has increased the demand for road infrastructure. Since, it is not possible to meet the entire requirement of upgradation of National Highways from public funds alone, the Government had taken a policy decision to involve private sector for development of National Highways on Build-Operate-Transfer (BOT) basis. The endeavour has been to have the largest number of bidders, so as to have competitive bidding and achieving least cost to the users. To achieve this, standardization of procedures and documents has been undertaken. Model Concession Agreements (MCA) were therefore, finalized for large projects costing over Rs.100 crore and for smaller projects of cost upto Rs.100 crore.

2. Continuing the process of standardization, prequalification criteria for bidders for small BOT projects have been finalized, and is enclosed at **Annexure – I**. The criteria has been drawn up in such a way so that more number of bidders become eligible, to enable competitive bidding, yet to ensure that the non-serious bidders are kept out. It may be noted that the cost of small BOT Projects will range from Rs.10 to 100 crore. The wide range from 10 to 100 crore requires that the prequalification criteria for smaller projects be flexible.

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3. The prequalification is based on the pass/fail criteria. An explanatory note on the criteria is enclosed at Annexure – II. A list of documents that is required for evaluating the bid is enclosed at Annexure – III. It may be noted that the list is not exhaustive.

4. Bidders for all BOT Projects of cost upto Rs.100 crore will henceforth be prequalified based on this pre-qualification criteria. The selection of the successful bidder, from amongst the prequalified bidders, will be based on least cost to public. Feedback regarding the Prequalification criteria, if any, may please be sent to the Ministry.

Yours faithfully,

(Faqr Chand)
Superintending Engineer (Planning)
for Director General (Road Development) & A.S.

Enclosures: As above

Copy forwarded for information and necessary action to:

1. All technical officers in the Ministry at Head Quarters.
2. All Regional Officers and ELOs of the Ministry of Road Transport & Highways,
3. National Institute for training of highway Engineers, 174, Jor Bagh, New Delhi-110 003.
4. Central Road Research Institute, Delhi-Mathura Road, New Delhi – 110 020
5. Secretary, Indian Roads Congress, Jamnagar House, Shahjahan Road, New Delhi – 110 011.
6. PL (10 copies)

(Faqr Chand)
Superintending Engineer (Planning)
for Director General (Road Development) & A.S.

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Annex-II

Note for Prequalification Criteria for BOT Projects of cost upto Rs.100 crore

(Enclosure to Circular No. NH-24035/23/97-PL (Vol. III) dated 12.01.2001)

The evaluation chart for the qualification of bidders for BOT projects of cost upto Rs.100 crore has been drawn based on the past experience of the Ministry in evaluating BOT Projects. This is based on pass/fail in a select set of criteria.

The following groups of criteria have been taken:

1. Organisation and Management
2. Financial Status
3. Experience of the bidder.

The criteria lays more stress on Organisational structure, financial strength and experience of the bidder, rather than on technical capabilities of the bidder as the Model Concession Agreement (MCA) allows the concessionaire to appoint Contractors/Consultants. It may, however, be ensured that the consultants are selected from the list of the empanelled consultants of this Ministry for the appropriate works and the selected contractor is duly qualified. The set of criteria has been made in such a way so as to encourage the formation of Joint Ventures of bidder, contractors and consultants. Such a Joint Venture will be able to deliver better quality work, within the time frame.

The following describes in brief the reasons behind the criteria used in drawing up the evaluation chart:

I. Organisation and Management

1. Corporate Structure of Bidder (in JV the Lead company to be considered)

It is felt that limited companies will have better access to financial and managerial resources than sole proprietorships. Also, the chance of default is very high for both sole proprietorship and partnerships due to deaths/quarrels etc. This is not the case with a limited or private limited company. Therefore, we need to encourage entrepreneurs to set up limited/private limited companies for bidder.

(Memorandum of association/articles of association/partnership agreement etc. to be enclosed showing that the entity is allowed to participate in BOT Projects on Highways).

2. Background of the bidder (in JV any Company satisfying criteria to be considered)

A BOT Operator on Highways is to be preferred, but since there are very few BOT Operators, therefore, we may consider bidders from related areas like highway/Bridge construction, BOT Operator in other infrastructure areas etc. The criteria will encourage new players, who may not have any experience in these areas, but have the capability to

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Annex-II

raise funds, to form JVs with experienced contractors, BOT operators etc. This will contribute to a great extent in the successful completion of the project.

3. Structure of Proposed Concessionaire

A concessionaire that is part of the company is likely to have better and cheaper access to funds. Other forms of concessionaires are likely to be subsidiaries of bidders and SPVs. Any other form of concessionaire should be discouraged.

II. Financial Status

The following broad guidelines are to be used for evaluating financial data:

1. Audited results for last 5 years to be used.
2. Weights are to be given at the rate of 10% per year as used in other BOT projects already underway. This translates in the following weights:

For last year – 1.00
For 1 year before – 1.10
For 2 years before – 1.21
For 3 years before – 1.33
For 4 years before – 1.46

If company did not exist for the last 5 years, corresponding figure for the year is to be taken as zero.

3. Year is to be the accounting year of the firm, as per the annual results. If the firm has a change in accounting policies, the corresponding figure needs to be annualized.

1. Weighted Net Cash Accrual for the last 5 years.

The case accruals reflect the ability of the bidder to bring in the necessary equity funds for the project. Assuming, a debt: equity ratio of 70:30, we can take the desirable Weighted Net Cash Accrual at least be equal to 30% of estimated project cost, For a JV we can increase the requirement to 1.5 times for the combined weighted net cash accrual.

2. Net Worth

The net worth reflects the financial capability of the bidder to implement the project. Considering the high risk nature of the equity to be invested the net worth of the bidder should be twice the requirement of the project i.e., considering a 70:30 debt equity ratio, the desirable net worth is 0.6 times Estimated Project Cost for single bidder. For a JV we can increase the requirement to 1.5 times.

3. Gearing (or leverage or debt:equity ratio)

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Annex-III

List of Documents required for Prequalification of bidders for Small BOT Projects
Enclosure to Circular No. NH-24035/23/97-PL (Vol III) dated 10th January, 2001

The following is a list of documents that are required for prequalification of bidders for small BOT projects, of cost upto Rs.100 crore. The list is not exhaustive and more documents can be called for if the situation so warrants.

1. Memorandum of Association/Articles of Association as filed before the Registrar of Companies.
2. Documents in support of the background of the bidder.
3. Documents regarding proposal concessionaire.
4. Audited financial results for the past five financial years, including balance sheets, profit and loss accounts, and cash flow statement. The results should be annualized and accounting practices should follow Indian guidelines in force. Explanation for changes in accounting practices should be enclosed.
5. Summary statement of net cash accruals for past five financial years, net worth and gearing level of the company (debt: equity ratio), certified by a Chartered Accountant.
6. Documents in support of experience of bidder.
7. In case of joint Venture, a copy of the Joint Venture agreement. For consideration as a valid joint venture, the agreement should include:
 - (a) The joint venture partners should be "jointly and severally liable"
 - (b) The agreement must specifically state that it is valid for project (or class of projects) for which bidding is done.
 - (c) The agreement should specify the lead company.
8. In case of Joint Venture, separate documents for each of the Joint Venture partners should be called for. A summary statement of net cash accruals for past five financial years and net worth of the joint venture (debt: equity ratio), certified by a Chartered Accountant, should also be asked for.

A Company with high debt: equity ratio will have difficulty in raising funds and will more expensive funds. Since it is expected that the concession is to be funded by further borrowings, we make take a debt: equity ratio of 1.5 : 1 (60 : 40) as preferable. This will leave some leeway for further borrowing by the firm for the BOT project for the project to have a debt : equity ratio of 70 : 30.

III Experience of bidder (in case of JV, total for combined JV may be taken)

In this case we can consider the experience of the bidder. Under this head we may qualify the bidder if they satisfy any of the following criteria:

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1. BOT in Highway/Bridge.

Experience on at least 1 BOT Project in Highway/Bridge of value of 50% of the estimated Project Cost.

2. Construction of Highways/Bridges.

Experience of construction of at least one project of cost more than 50% of Estimated Project Cost. This provision has been kept to encourage construction companies to bid on their own or in Joint Ventures. This will ensure quality on construction.

3. BOT in other Infrastructure areas

Since there are only a few BOT operators in Highway/Bridges and it is desirable to widen the field, the BOT operators in other infrastructure areas may also be considered. Here, experience on a BOT Project of cost twice the estimated Project cost is taken.