

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

Dated, the 12th January, 2001

To

The Secretaries (PWD/Roads) and Chief Engineers of all State Governments/UTs (dealing with National Highways and other Centrally Sponsored Schemes); Director General Border Roads; Chairman, National Highways Authority of India

Subject : Pre-qualification criteria for Bidders for Small BOT Projects of cost upto Rs. 100 crore

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 standardisation of procedures and documents has been undertaken. Model Concession Agreements (MCA) were, therefore, finalised for large projects costing over Rs. 100 crore and for smaller projects of cost upto Rs. 100 crore.

2. Continuing the process of standardisation, pre-qualification criteria for bidders for small BOT projects have been finalised, 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 smaller BOT projects will range from Rs. 10 to 100 crore. The wide range from 10 to 100 crore requires that the pre-qualification criteria for smaller projects be flexible.

3. The pre-qualification 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 pre-qualified based on this pre-qualification criteria. The selection of the successful bidder, from amongst the pre-qualified bidders, will be based on least cost to public. Feedback regarding the Pre-qualification criteria, if any, may please be sent to the Ministry.

**Annexure-I**

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

**Evaluation Criteria for bidders for BOT Projects of cost upto Rs. 100 crore**

Sl. No.	Criteria	Evaluation		Remarks
(1)	(2)	(3)	(4)	(5)
<b>(I) Organisation and Management</b>				
(1)	Corporate Structure of Bidder (in JV the Lead company to be considered)	Limited company Private Limited Company Partnership Sole Proprietorship	Pass Pass Fail Fail	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 in JV to be considered)	BOT Operator on Highways Highway/Bridge Construction Contractor BOT Operator in other Infrastructure areas Financing related to Construction Financing related to Infrastructure Other	Pass Pass  Pass Pass Fail	If bidder is in more than one area the area in which it get passed will be considered as background
(3)	Structure of Proposed Concessionnaire	As a part of the company As a subsidiary of bidder (or a JV company) As an SPV Other	Pass Pass  Pass Fail	
<b>II. Financial Status</b>				
(1)	Weighted Net Cash Accrual for the last 5 years	$\geq 0.3 \times$ Estimated Project Cost for single bidder $< 0.3 \times$ Estimated Project Cost for single bidder $\geq 0.45 \times$ Estimated Project Cost for combined JV $< 0.45 \times$ Estimated Project Cost for combined JV	Pass Fail Pass Fail	(1) Audited Results for last 5 years to be used. (2) Weights are to be given as : 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

(1)	(2)	(3)	(4)	(5)
				<p>If company did not exist for the last 5 years, corresponding figure is to be taken as zero.</p> <p>(3) Year is accounting year of the firm. If change in accounting year, results to be annualized.</p>
(2)	Net Worth	$\geq 0.6 \times$ Estimated Project Cost for single bidder $< 0.6 \times$ Estimated Project Cost for single bidder $\geq 0.9 \times$ Estimated Project Cost for combined JV $\leq 0.9 \times$ Estimated Project Cost for combined JV	Pass Fail Pass Fail	As per last audited results
(3)	Gearing	Debt: Equity ratio for bidder (in JV Lead Company) $\leq 1.5:1$ Debt: Equity ratio for bidder (in JV Lead Company) $\geq 1.5:1$	Pass Fail	
<b>(III) Experience of bidder (in case of JV, total for combined JV may be taken)</b>			Pass in atleast 1 category	
(1)	BOT in Highway/Bridge	$\geq 1$ projects Otherwise	Pass Fail	
(2)	Construction of Highway/Bridges	$\geq 1$ project of cost more than $0.5 \times$ Estimated Project Cost Otherwise	Pass Fail	
(3)	BOT in other infrastructure areas	$\geq 1$ projects of cost more than $2 \times$ Estimated Project Cost Otherwise	Pass Fail	

**Annexure-II**

(Enclosure to Ministry's Circular No. NH-24035/23/97-PL (Vol. III) dated 12-01-2001)

**NOTE ON PRE-QUALIFICATION CRITERIA FOR BOT PROJECTS OF COST UPTO RS. 100 CRORE**

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 bidders, 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 bidding.

(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. This criteria will encourage new players, who may not have any experience in these areas, but have the capability to 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 cent 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.

**WEIGHTED NET CASH ACCRUAL FOR THE LAST 5 YEARS**

1.

The cash 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 per cent 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)****Annexure-III**

*(Enclosure to Ministry's Circular No. NH-24035/23/97-PL (Vol. III) dated 12th January, 2001)*

**LIST OF DOCUMENTS REQUIRED FOR PRE-QUALIFICATION OF BIDDERS FOR SMALL BOT PROJECTS**

The following is a list of documents that are required for pre-qualification 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 proposed 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 have more expensive funds. Since it is expected that the concession is to be funded by further borrowings, we may 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 EBT 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:

- (1) **BOT in Highway/Bridge**  
Experience on at least 1 BOT Project in Highway/Bridge of value of 50 per cent of the estimated Project Cost.
- (2) **Construction of Highways/Bridges**  
Experience of construction of at least one project of cost more than 50 per cent 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 in 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.