

File No: 3/2/2021-ISD
Ministry of Finance
Department of Economic Affairs
Private Investment Unit

North Block, New Delhi
Dated 23rd May, 2022

OFFICE MEMORANDUM

Subject: Record of Discussions of 108th Meeting of PPPAC to consider the project proposal from D/o Food & Public Distribution for 'Development of Steel Silos under Hub & Spoke model' - Silo Projects at 66 locations on DBFOO basis on PPP mode- reg.

The undersigned is directed to enclose a copy of the minutes of the 108th Meeting of the PPPAC held on 13th May, 2022 under the Chairmanship of Secretary (EA) for information and necessary action.

2. This issues with the approval of the Secretary, Economic Affairs.

Encl: As above



(Dr. Molishree)

Deputy Secretary to the Government of India

To

1. CEO, NITI Aayog
2. Finance Secretary & Secretary, Department of Expenditure
3. Secretary, D/o Food & Public Distribution
4. Secretary, Department of Legal Affairs

Copy to:

1. Sr. PPS to Secretary (EA)
2. Sr. PPS to JS (ISD)

Record of Discussions of 108th Meeting of PPPAC to consider the project proposal from D/o Food & Public Distribution for 'Development of Steel Silos under Hub & Spoke model' - Silo Projects at 66 locations on DBFOO basis on PPP mode.

1. The 108th Meeting of PPPAC chaired by Secretary, DEA was held on 13th May, 2022 at 2:30 PM to consider the project proposal from D/o Food & Public Distribution for 'Development of Steel Silos under Hub & Spoke model' - Silo Projects at 66 locations on DBFOO basis on PPP mode. The list of attendees is annexed (**Annexure-I**). Brief particulars of the project are as below:

Project Structuring & Financing					
Total Proposed Capacity	Project -1	26 Silos	10.875 LMT		
	Project -2	22 Silos	7.250 LMT		
	Project -3	18 Silos	6.625 LMT		
	Total	66 Silos	24.750 LMT		
Project Capex for all three Projects	Particular	Project -1 INR Cr	Project-2 INR Cr	Project-3 INR Cr	Total INR Cr
	Land & land Development	87.53	61.60	53.60	202.73
	Civil Work	247.68	179.70	158.90	586.28
	Silo, Plant & Machinery	411.94	306.80	266.00	984.74
	Electricity & Utilities	74.27	61.20	50.70	186.17
	EPC Cost	821.42	609.30	529.20	1959.92
	Pre-operating	11.01	8.20	7.10	26.31
	Financing Cost	7.14	5.30	4.60	17.04
	IDC	41.06	30.20	26.20	97.46
	Total	880.63	653.00	567.10	2100.73
Concession Period	31.5 years (1.5 year construction period + 30 years Operation Period)				
Project Model	Design, Build, Finance, Own and Operate (DBFOO)				
Selection Process	Single-stage two envelope process				
Bidding Parameter	Fixed Storage Charges per MT per year				

Project Sources	Revenue	<ul style="list-style-type: none"> Fixed Storage Charge (Bid Parameter) means the Capacity-linked charge payable by the Authority to the Concessionaire The Variable Charge for storage of Food Grains shall be the charges per quintal per month for Food Grains stored in the Storage Facility for any month or part thereof Handling Charge means that component of Storage and Handling Charge payable by the Authority to the Concessionaire under the Agreement towards bag related unloading and loading activities and shall be charged on actual quantity handled. 			
NPV with discounting	12%	Particular	Project-1	Project-2	Project-3
		Project IRR	10.32%	10.33%	10.33%
		Equity IRR	15%		
		NPV of revenue streams (INR Cr)	1071.11	794.70	690.46
		WACC	9.71%	9.73%	9.73%

- On behalf of the Chair, JS, ISD welcomed the attendees to the meeting. The PPPAC was informed that D/o Food & Public Distribution (DF&PD) has the 'Development of Steel Silos under Hub & Spoke model' in PPP mode. Some of the projects under the DBFOT mode have already been appraised by the SFC headed by the Admin Secretary. Now proposal for the development of silos at 66 locations in 3 projects have been submitted to the PPPAC for appraisal. PPPAC was appraised that a lot of deliberations have already happened among the DF&PD, DEA and NITI Aayog and accordingly project structuring has gone through a lot of improvements. He requested the DF&PD to make the presentation.
- DF&PD/FCI informed that the National Policy on Handling, Storage and Transportation of food grains in July 2000 placed strong emphasis on Silo development and leveraging private resources. Largely, post procurement, food grains have traditionally been stored in both conventional go-downs and cover and Plinth (CAP) storage facilities. FCI hires such conventional traditional storage facilities from CWC, SWC, State Agencies and Private Parties for short term as well as for guaranteed period under Private Entrepreneurs Guarantee Scheme. Now, with the focus on modernization of the existing traditional storage facilities, FCI has been augmenting and modernizing storage facilities in the form of silos in PPP mode.
- FCI also informed that as per Gol instructions for Silos, storage gap was assessed and it has emerged that there is a shortfall of 240 LMT storage space.

Therefore, there is a need to create additional storage infrastructure for reliable and scientific storage of food grains. Accordingly, 249 silos with a total capacity of 111 LMT have been planned to be developed in phases. In phase one, silos at 80 locations shall be developed with a total capacity of 34.87 LMT. In these 80 silos, 14 are developed in DBFOT mode where land is already available with FCI and have already been appraised by the SFC, whereas, remaining 66 silos with a total capacity of 24.75 LMT are proposed to be developed in DBFOO mode where the land has to be provided by the concessionaire itself. These 66 silo locations have been bundled in 3 projects and have been submitted for the PPPAC appraisal.

5. Under the Hub and Spoke silo model, new standalone Spoke silos will be developed across procuring and consuming regions. These standalone silos will leverage road connectivity for bulk grain movement through industry standard containers. The Spoke silos shall be mapped to a dedicated Hub silo network comprising of existing rail siding Silos of FCI and new proposed Silos with container terminal for handling of containers. The Concession period shall be 31.5 years, including 1.5 years of construction period. The bid parameter shall be Fixed Storage Charges per MT per year. The project will be implemented on Design, Build, Finance, Own and Operate (DBFOO) Mode, wherein the land will be brought in by the concessionaire and at the end of the concession period the project assets, including land shall be remain with the concessionaire. Further, in the current formulation, maximum one project can be awarded to a single bidder and the bid process will be run on reverse auction mode.
6. Secretary, DF&PD said that the proposal has been examined by the PPPAC members and recommendations / suggestions received have been agreed to by the DF&PD except those which have been flagged in today's discussion. He further requested that as the project is a single stage two envelop system, the PPPAC may give its recommendation for "In-Principle and Final Approval" simultaneously.
7. JS, ISD informed the PPPAC that earlier also in its 85th, 98th, 100th and 106th Meetings etc., in cases of a single stage two envelop system, had given recommendations for "In-Principle and Final Approval" simultaneously. NITI Aayog informed that the RFP and DCA required to be submitted for recommendation for "Final Approval" of the PPPAC have already been submitted by the DF&PD and examined by the members of the PPPAC and since the instant project proposal is on single stage two envelope bid mechanism, there will not be a separate RFQ stage.
8. Upon request of the DF&PD, the PPPAC decided, for the reasons explained above, to consider the proposal for recommending "In-Principle and Final Approval" simultaneously.

9. The Chair then invited PPPAC Members for any further comments and with the permission of the Chair, the following issues were then raised: -

a. NITI Aayog raised the following issues:

- i. As assessed by the DF&PD, there is a storage gap of around 240 LMT in the country and the total storage capacity development envisaged is only around 111 LMT in 249 locations. Out of these 249 locations, only 66 locations with 24.75 LMT capacity is envisaged to be developed through the current project proposals. Hence, the presumption of concentrations and monopoly of storage capacity does not appear to be well founded. Therefore, in order to get financially sound bids (such, that allow bidders to quote taking into consideration economies of scale) and in the interest of competition and letting market forces prevail, no restriction on number of projects that can be bided/awarded to a single entity may be made at this stage.
- ii. As regards the reverse auction process, the infrastructure projects are not akin to other procurement contracts and as such applicability of reverse auction may not yield the presumed benefits. The bid process of infrastructure projects, such as this, involves submission of bids determined through due diligence on part of bidders with a fair amount of effort and evaluation going into the formulation of quotes, and as such the availability of reverse auction mechanism after submission of financial bids may lead to frivolous or higher initial bids.
- iii. Event of Default at one location should not lead to termination of the concession agreement. Feasibility of the de-scoping of 10% to 20% of the locations in such case may be explored to ensure that project doesn't get terminated for one or two silo locations being in default.
- iv. Use of the silos facility for 5 years after project termination needs to be re-examined as this may create a legal issue as it will have to be governed by the provisions of an already terminated agreement.
- v. Certain other provisions of the concession agreement need revision for alignment with prudent practice, as noted in the written comments submitted. The DF&PD may meet with NITI Aayog representatives and discuss and finalise the same.

b. DoE raised the following issues:

- i. As per Para No. 1.2.2 of the Feasibility Report under the heading Procurement and Storage Scenario, the Projected stock position in Central Pool as on 01.07.2022 (Fig in LMT) is stated as "Storage Gap/ Shortfall in Capacity I = G-H - - 77.81 LMT". However, the present proposal is for 24.75 LMT, which means there is always a possibility of 100% capacity utilization. However, as per para no. 5.1.2 under the heading projected revenue the variable storages charges have been calculated based on the assumption of 70% capacity utilization, which needs to be revisited.

- ii. As per Para No. 5.1.2 of the Feasibility Report under the heading Means of Finance Analysis, it is stated that the expected return on equity for DBFOO mode has been assumed at 15% annually as per industry practice. However, at 9% interest rate on debt, the return on equity @15% seem to be too much high and should be rationalized at 11%, considering an expected overall return of 10% where Debt Equity ratio is 60:40. The same has an impact on computation of fixed storage charges (Rs. /MT/Year). Accordingly, Table No. 25A, 26B & 27c need to be modified. Table 28: Sensitivity Analysis-DBFOO is also needs to be reversed starting from 11% to 15% instead of from 15% to 11%.
- c. DEA raised the following issues:
 - i. All the issues raised by NITI have also been raised by the DEA and it is suggested to revise the documents accordingly.
 - ii. The present requirement of only 'identifying' land at 60% of the locations in 240 days appears to be very lenient and may lead to delays or failure in the project. It is suggested that the bidders should 'identify' land at at least 40% of the locations before placing the bid. This will not only ensure participation of serious players but also enhance project success.
 - iii. Rate of fixed charges for the use of Silo Complex by the Authority before completion certificate as well as after Termination/ descoping are low. If these assets are to be utilized by the authority in these two scenarios and the services provided by the concessionaire are at the same level, then, it doesn't appear reasonable to reduce fixed charges to 60% - 75% of the bided rate. It may be considered to keep at a higher range to incentivize the concessionaire.
 - iv. It appears that the cost of land and the silo structure is to be borne by the concessionaire, and such cost is expected to be loaded onto the Project and paid by the Project Sponsoring Authority in form of Fixed charges quoted by the bidder. As the Project Sponsoring Authority (PSA) is paying the cost, it may be clarified what value is coming back to the PSA in terms of assets created at the end of Concession Period.
 - v. As the project is DBFOO mode where the asset will belong to the concessionaire after termination, therefore, termination clauses should be flexible enough to ensure that projects do not get terminated for smaller issues. Any default which may get addressed by penalty should not be the basis of termination except in case of repeated offence. This will lead to better traction of the project.
 - vi. Projects under DBFOO mode are sizeable both in terms of number of locations and storage capacity and the TPC. As informed by the DF&PD itself, there are not many players in this field. Therefore, it is suggested that Minimum Eligibility Qualification/shortlisting of bidders should be only based on the Financial Capacity. This will widen the bidding universe to include financial sector players also, who may not possess the necessary

technical experience but have the requisite financial strength for implementing the projects, thus improving the biddability of the projects.

d. DoLA informed that there are no specific legal issues and as such they have no comments to offer.

e. Ministry of Railways informed that they have no specific issues to raise regarding the project proposal as the envisaged locations were not rail siding silos.

10. The Chair then raised the issue that land requirement parameters may be suitably incorporated in the Concession Agreement to ensure proper connectivity and suitability of land for foodgrain storage.

11. DF&PD/FCI submitted the following responses in this regard: -

a. There are very few silo operators in the country and they are reliant on technology from outside. In order to prevent monopolization, the provision of restriction of one bundle to one bidder may be kept. However, this only for the first phase and there is no bar in a successful bidder of phase one to participate in bidding process and be awarded a project in the next phase.

b. It was clarified that there is no provision for descoping after commissioning of the project.

c. The provision of use of silo for maximum 5 years have been kept for FCI to make alternative arrangement for foodgrain stock kept in the silos, but the actual period is not expected to be more than 8-10 months.

d. Since the silos would not be operational at full capacity for the entire year and the food grain will be stored as well as taken out for consumption, hence, average capacity utilisation of 70% during the year has been assumed on the financial model, as per standard practice of FCI.

e. Further, the estimation of project IRR and Equity IRR and debt rate has been based on standard formulations for other silo projects executed by FCI. Also, this is just an estimation and the final IRR and debt interest rate shall be estimated by the bidders and factored into their bids.

f. It had been previously attempted to make land availability as the eligibility criteria, however, the model was not successful. Hence, land availability is not being made a pre-condition for placing bids in the current proposal.

g. The rate of fixed charges for use of Silo Complex by the Authority before completion certificate as well as after Termination/ descoping are as per the standard practice of the FCI.

h. As per structure of DBFOO transaction, the land and other assets are to be transferred to the Concessionaire after the completion of the Concessions Period. Also, the life of asset is 30 years based on technical study conducted by then Planning Commission and hence there may not be much realizable value of the project at the end of concession period.

Moreover, the bidders will factor such realizable value into their bids and make informed decisions accordingly and place their competitive bids.

- i. All other issues raised by the members shall be duly incorporated in the bid documents.

12. DoE, DEA, NITI Aayog, DoLA, MoR, M/o Steel and DPIIT informed that they have reviewed the project documents and have no further comments to offer.

13. After deliberations, PPPAC decided to recommend for 'In Principle and Final Approval' to the competent authority to the project proposal from D/o Food & Public Distribution for 'Development of Steel Silos under Hub & Spoke model' - Silo Projects at 66 locations on DBFOO basis on PPP mode, with the following observations: -

- a. No restriction on the number of projects to be awarded to a single bidder be made at this stage.
- b. Reverse Auction process should not be resorted to for these projects.
- c. Suitable mechanism to ensure that post COD default at even 1 location should not result in termination of entire concession agreement. The DF&PD/FCI may consider incorporating suitable leverage, say upto 10% of the locations being affected by such default, or any other mechanism, in this regard.
- d. The incongruity regarding retaining/continuing storage operations silos post termination of the Concession Agreement be re-considered and suitably amended by the DF&PD/FCI.
- e. The language in RFP/DCA in general and with reference to the Force Majeure event and Termination, etc. in particular to be revisited and revised in consultation with NITI Aayog.
- f. To enable maximum investor participation, the qualification and shortlisting under the RFP shall be conducted only on the basis of the Financial Capacity. Land requirement parameters may suitably be incorporated to ensure proper connectivity and suitability of land for foodgrain storage.
- g. Since these are the first of the several such Silo projects in the pipeline, D/o F&PD may consider developing and notifying an MCA for such projects. This will expedite the process of appraisal and approval and also ensure balanced risk allocation.
- h. Revalidation of its recommendations by the PPPAC is not required for following post recommendation changes in the project bid documents:
 - i. Impact of changes in the Project cost, Concession terms like concession period, termination payment, development rights, penalty clauses, tariffs/ user charges, is less than 20% of the originally recommended.
 - ii. Any change in the date/time period for any timebound actions like appointed date, financial close, construction period, etc.

- iii. Non-Substantial change in risk allocation.
- iv. Any other changes/modification (except as stated in para above) in the project proposal with the overall objective of making project successful.
- v. Further, the DF&PD/FCI will decide whether the changes done post recommendation of the project proposal by the PPPAC, fall within the threshold criteria as stated above.
- vi. All such changes falling within the threshold criteria as stated above, shall be appraised at the level of Secretary, DF&PD/C&MD, FCI without any further need of revalidation by the PPPAC and DF&PD/FCI shall proceed with the approval process accordingly.

14. The meeting ended with vote of thanks to the Chair.

Annexure - I

List of participants of 108th Meeting of PPPAC held on 13.05.2022 to consider the project proposal from D/o Food & Public Distribution for 'Development of Steel Silos under Hub & Spoke model' - Silo Projects at 66 locations on DBFOO basis on PPP mode:

1. **Department of Economic Affairs (DEA), Ministry of Finance**

- a. Sh. Ajay Seth, Secretary (In Chair)
- b. Sh. Baldeo Purushartha, Joint Secretary (ISD)
- c. Dr. Molishree, Deputy Secretary to the Government of India, (PIU)
- d. Dr. Kartik Agrawal, Deputy Director

2. **Department of Expenditure (DoE), Ministry of Finance**

- a. Dr. Sajjan Singh Yadav, Additional Secretary (PFS)
- b. Sh. Prateek Kumar Singh, Director
- c. Sh. Rabi Ranjan, Under Secretary
- d. Sh. Ranganath Audam, Deputy Director

3. **NITI Aayog**

- a. Sh. Partha Sarthi Reddy, Adviser (PPP)
- b. Ms. Nidhi Arora, Consultant (Legal)

4. **Department of Legal Affairs (DoLA)**

- a. Dr. R.J.R. Kasibhatla, Deputy Legal Advisor

5. **Ministry of Railways**

- a. Sh. Manoj Kumar Singh, Executive Director

6. **Ministry of Steel**

- a. Sh. G Sarathy Raja, Deputy Secretary

7. **DPIIT**

- a. Sh. Arun Kumar, Under Secretary

8. **Department of Food & Public Distribution**

- a. Sh. Sudhanshu Pandey, Secretary
- b. Ms. Nandita Gupta, Joint Secretary, (Storage)
- c. Sh. Mateshwari Mishra, Director (Storage)

9. **FCI**

- a. Ms. Vanita Ratan Sharma, ED Silos
- b. Sh. Aseem Chhabra, GM