

Evaluation Study of Karnataka Road Development Corporation Limited
Department of Public Enterprises

Executive Summary

ES-1: Background

Karnataka Road Development Corporation (KRDCL) was established in 1999 to promote surface infrastructure by taking up Road Works, Bridges etc. in the State and to improve road network on BOT/BOOT/BOLT modes. The Department of Public Enterprises (DPE), Government of Karnataka, envisaged taking up Study of performance of Public Sector Enterprises (PSEs) of Government including KRDCL. The Study is aimed at evaluating performance of the company on both physical and financial aspects in order to strengthen the PSE for enabling to perform better.

The company is managed by a Board of Directors chaired by Principal Secretary to Government, PWP and IWID with Members from other organizations. The Company is headed by the Managing Director who is well supported by a team of professionals. The Chief Engineer is overall responsible for execution of road & bridge projects with the coordination of Engineers & staff located at Head office & branch offices. The company has very limited staff of its own and almost all the staff including Engineers are on deputation from other Government departments viz., PWD, State Accounts etc.,

The company undertakes road projects as and when grants are sanctioned from Government/PWD. The number of projects taken up by the Company is directly dependent on government grants. It has also no mandate to own any assets and structures. Once the road works are completed, these would be

transferred to Government/PWD along with other structures for further maintenance. Since the company do not have assets of its own, it cannot hypothecate / pledge such properties to financial institutions for raising loans to take up new roads.

The company is constrained from collecting toll charges from the road projects developed by it, resulting in no accrual of income from such projects. The income is only from interest earned on short term deposits and service charges collected. Currently, the State do not have exclusive State Highway Fund, whereas other States viz., Maharashtra, Gujarat, Madhya Pradesh etc., have their own fund meant exclusively for development of road projects. Further, respective road development companies are allowed to collect toll charges from road projects developed under various PPP models. Even though, KRDCCL has completed many projects under PPP, there is no provision to collect toll charges from such projects. Hence, it is highly dependent on Government grants/assistance for taking up new road projects.

ES-2 : Physical Performance

KRDCCL undertakes road works in two models i.e. EPC and PPP. In addition to new projects, it also undertakes maintenance of roads across the State. Taken up roads, bridges and grade separators and also maintenance of them. In addition to this, projects are also implemented on PPP/BOT mode by the Company.

Under EPC mode, the company has completed 839 kms. roads, 645 bridges and undertook maintenance of roads for a total length of 21,837 kms. Further, 374 kms. of roads and 20 bridge projects are ongoing.

Under PPP mode, it has completed 328.60 kms. roads and a total length of 83 kms. of road projects are ongoing. In addition 895.23 kms. roads are proposed at various locations. Thus, roads under PPP mode account for a total length of 1306.83 kms. Further, it has proposed to take up maintenance of roads under OMT mode for a length of 603 kms.

ES 3 : Financial Performance

The financial performance of the company in the last five years has seen both profits and losses. During the year 2008-09 and 2009-10 the company incurred losses of Rs.565 lakhs and Rs.948 lakhs respectively. However, it has been able to make profit after tax of Rs.285 lakhs, Rs.931 lakhs and Rs.980 lakhs during 2010-11, 2011-12 and 2012-13 respectively. This fluctuations is mainly due to the fact that, there was no uniformity in sanction of grants from the Government every year, resulting in variation income from interest.

The trends in Gross Expenditure indicate that, the major expenses was for payment of salaries to the employees. Other expenditures are for administration, guarantee commission paid to Government of Karnataka, interest on loan etc., which were nominal. The Gross expenditure, which was Rs.1482 lakh in 2008-09 was increased to Rs.3225 lakhs during 2012-13, indicating an increase of 117% over five years period (which is the reference period for the study). This is due to inclusion of financial costs as per revision of existing procedure.

It is to be noted that, Return on Capital Employed of the company has increased from -0.39% to 5.01% during 2008-09 to 2012-13. Similarly, return on equity also increased from -2.82% to 6.41% during the same period. It is

evident from both these ratios that, company could improve its financial performance over the years.

ES 4 :Overall performance

Over all performance of the Company is assessed in terms of various critical parameters viz., project selection, planning, project preparation, implementation, fund allocation, maintenance, steps followed in selection of contractors, monitoring mechanism adopted etc.,

With regard to project selection, it is observed that, projects are taken up and implemented by the Company as per the demand and requirements.

With regard to land acquisition, environment clearances and shifting of utilities, the company is following the required procedures in getting requisite clearances from environment department before start of the projects. Further, it is speeding up land acquisition process and coordinating with different departments for speedy implementation.

With regard to project Preparation, Detailed Project Reports are prepared through its selected project engineering consultants. The DPRs would be based on relevant tests, projection of traffic to designed life, planning of cross drainage works appropriately.

With regard to Project implementation and monitoring, the companies is utilizing its resources to the best possible way to reap the maximum benefits its various road projects. The road projects are implemented with proper planning, scheduling and coordination and is adhering to well developed project management methods.

With regard to Projects on PPP mode, though initiation is made by the Company at there is need for more number of projects to be implemented, ensuring long terms sustainability of the organization. Currently, there is no mechanism of allotment of government lands all along the roads to the PPP concessioner for commercial development. Such arrangements in PPP mode would enhance life cycle benefits and would attract more such projects.

The company is desired to have its own engineers so that, they can involve fully in execution of projects and ensure completion in time. Inducting engineers on deputation to the company may be discouraged as far as possible.

ES 5: Bench marking with other similar organization

To assess the performance of the company, the same has been bench marked with other similar organizations. For this purpose, the performance of the company is compared with Madhya Pradesh Road Development Corporation (MPRDC).

With regard to projects on BOT scheme, MPRDC has completed 2,311 kms length of roads, 1579 kms length roads are under construction and 864 kms are under tendering stage with a total of **4,754 kms**. Whereas, KRDCCL has completed only 328.60 kms roads so far under PPP-BOT-VGF (toll) mode and another 83 kms are ongoing project under DBFOT-VGF (Toll) mode and another annuity mode, with a total of 895.23 kms. have been proposed under DBFOT-VGF (Toll) mode & Annuity mode BOT mode. Thus, total road under PPP/ BOT mode by KRDCCL is **1306.83 kms**.

Under regular contract projects, MPRDC has completed 1249 kms length of roads, 338 kms length roads are under construction with a total of 1587 kms. Whereas KRDC has completed 940 kms roads at different stretches.

With regard to Institutional Developments, there is scope for lot of improvements by KRDC to match with MPRDC performance. MPRDC has reduced the staff strength particularly of deputationists resulting in reduced overheads. At MPRDC, there is the mechanism of asset inventory management system in place.

However, In respect of KRDC, there is also an environmental cell headed by Environmental Manager and there is scope for strengthening it as a full pledged cell. There is need for asset inventory management system for accounting the details with respect to assets as part of MIS. As such KRDC has MIS information system, however, the same may be strengthened to function more effectively.

With regard to sustainability of the Company, it is observed that, MPRDC has adopted adequate revenue generation mechanisms through implementing various projects. It has created State highway fund and separate division for the maintenance of roads and other structures. Further, additional revenue is ensured as it is mandated to collect toll charges from toll plazas and border check post. In addition to this, MPRDC has introduced other attractive revenue generating models viz., OMT system, Innovative financial models for new PPP projects, annual maintenance plans for each road etc.,

In case of KRDC, there is no separate state highway fund created and hence it is constrained from taking up new projects even in the event of stoppage of government grants. It is not mandated to collect toll charges from the projects

it develop and not able to generate profits. There is tendency of decrease in grant support from government over the years and sustenance of the organization is becoming difficult.

ES 6 :SWOT Analysis

As per SWOT analysis the main strengths Company is its pool of professional engineers with whose support the company could complete road & bridge projects and also undertook maintenance of roads of about 22,000 kms. The projects have been completed successfully within the estimated cost and time. The company has scope for improving its performance by adopting various both technical and financial measures. The company is constrained from collecting toll from the roads it develop. Hence it could not create corpus funds for taking up new projects, even in the absence of State Highway Funds. This is due to the fact that, the company is fully dependent on government grants / deposits for implementation of the projects.

The income to the company is only from interest earned on short term deposits. Due to fluctuations in the deposits made by the government there is also fluctuations in the income earned by the company. There is need for the company to take up traffic worthy roads and collect toll from such projects. As currently, the company is taking up projects based on demand and requirement, it is constrained from collecting toll from atleast traffic worthy roads as it is not mandated.

The company has several opportunities to take up more projects under PPP mode. Other States have the mechanism of creation of exclusive State Highway Funds for development of roads without depending on Government grants. However, this mechanism is not created in the State resulting in non

taking up of road projects by the Company. There is a decrease in deposit contribution from the government and hence the company is not able to take up new road projects. Under the circumstances, there is a threat of closure of the company due to decrease in grant support/deposits from the government.

ES 7 : Recommendations

Based on the findings, conclusions and discussions had as part of the Study, the followings recommendations are suggested :

a) Short-term practicable recommendations

- To prioritize projects based on need and demand.
- To strengthen an environmental section as a full fledged cell.
- Introduction of asset inventorization and management system for day-to-day monitoring of the operations, administration, revenue generation etc.,
- Development of in-house expertise for various projects, will enable company to save some costs spent for consultancy/outsourcing. Deployment of supervision & quality control consultants having international expertise would help the organization in increasing technical knowledge for their staff.

b) Long-term practicable recommendations

- Providing/allotting government lands all along the roads at strategic locations for commercial development would enable PPP concessioner in increasing income from such projects. These provisions in PPP mode projects would enhance life cycle benefits and would attract more projects under this mode.
- Government may allocate traffic worthy roads to the Company for implementation under BOT/BOLT/PPP mode and allow to collect toll

charges for creation of its own revenue base, which will ensure long term sustainability of the company.

c) Recommendations requiring change in policy

- Creation of separate State Highway fund would enable the Company to take up the projects independently without depending on government grant / deposits.
- Ownership of the roads and other assets shall be with the company enabling it to raise loans from financial institutions for taking up more and attractive projects by pledging the same.
- The company shall have its own permanent staff and it is desirable for less dependent on deputation staff for the works.
- Developing border check posts at strategic locations as prevailing in other states would result in increased income to the Company. Indirectly, this will also help in control over loading and damage to the State roads due to heavy loading and reduce unauthorized entries.
- Taking up more number of PPP projects under various modes would enable the company to become less dependent on government grants and sustain on its own in the long run.

Conclusions & Recommendations

13.1 Conclusions

- The Indian economy is growing fast. It is required to facilitate the growth of economy by providing proper infrastructure viz., roads, bridges, ports, industrial areas, etc.. Road infrastructure plays a very important role in improving the economy of any region.
- Development of superior infrastructure including roads, require colossal investments and also, the gestation period is long for returns from these type of projects.
- Due to these limitations, investments are not forthcoming from the private sector. Under such circumstances the role of Government assumes lot of significance.
- To improve the pace of economy in through infrastructure development including roads, may states essential their own road development Companys, including Karnataka.
- KRDC is fulfilling the objective of construction of roads either on EPC or PPP mode.
- KRDC has a pool of technical staff both at Head Office and its branch offices and in a position to take up new projects.
- The main strength of the company is that, it is a Government owned company and has highly be qualified technical staff.
- KRDC under takes roads and bridges projects on both (i) EPC (ii) PPP mode. Under EPC mode, it has constructed 839 km. roads and 374 km length of

roads, are under construction. It has completed 645 bridges and proposed 394 new bridges under EPC contract system.

- KRDCCL though not much progress is made, however it is gently progressing in this direction. Under PPP mode, it has constructed 333 km. roads, 157 km length of roads are ongoing projects and roads with a total length to 2500 km are proposed.
- KRDCCL is known for taking up maintenance of roads. Since inception, it has completed annual maintenance of roads having total length over 21000 km.
- KRDCCL do not have assets of its own. As it has no assets of its own, it can not raise loans from financial institutions by pledging.
- It has no mandate to own any assets and structures. Once the roads are completed, they would be transferred to Government / PWD, for further maintenance.
- KRDCCL is constrained from collecting total charges from the projects it develop as it is not mandated to do so. Hence, there is no income from the projects. The income is only in the form of interest earned on short term deposits and service charges collected.
- The company do not have exclusive State Highway fund, as prevailing in other States. It is highly dependent on Government funds / assistance for taking up projects.
- Because of variations in sanction of grants from the Government every year due to fluctuations in short term deposit contribution, there is also fluctuation in accrual of interest income to the company. It is observed that, the profit &

loss account which shown negative figures during the initial period (2008-09 & 2009-10) change to positive trend from 2010-11 to 2012-13. This indicates that, during these three years there was much short term deposits made from the government and also accrual of interest income.

- The analysis of profit and loss account of the Company for the last five years (2008-09 to 2012-13) indicates that, the company has been able to make profit only for the last three years i.e. during 2010-11, 2011-12 and 2012-13. During these three years profit after taxes was Rs.285 lakhs, Rs.931 lakhs and Rs.980 lakhs respectively. It incurred losses to the extent of Rs.565 lakhs and Rs.948 lakhs during the years 2008-09 and 2009-10 respectively. It is observed that, due to heavy losses in the previous years, there was no net amount carried to balance sheet in all the five years (2008-09 to 2012-13), which is the reference period for the study. The positive trend in the profit & loss account of the company was mainly due to increase in interest earned on short-term deposits. During the last three financial years there was more deposit contribution from the Government to the Company and hence it could earn interest accordingly.
- The comparison of Gross Turnover V/s. Gross Expenditure for the last five years indicates that, the gross expenditure is exceeding the turnover during 2008-09 and 2009-10. However, there has been a reverse trend and turnover is exceeding the gross expenditure during 2010-11,2011-12 and 2012-13.
- Return on Capital Employed which was negative during the first two years turned positive and increased upto 5.01% as on 2012-13. Return on equity also which was negative during the initial two years also became positive and increased upto 6.41% as on 2012-13. Earning / share which was negative during

the first two years became positive from 2010-11 and increased upto Rs.0.06 as EPS as of 2012-13.

- Analysis of Balance Sheet for the last five years indicate that, the networth of the company which was about Rs.1434 crores as on 2008-09 decreased to Rs.162 crores during 2012-13. This indicates that, the networth of the company has been eroded heavily during this period. The current ratio during 2008-09 was 2.89 increased to 3.85 during the next year and further increased to 5.90 during 2010-11. However, the trend reversed and there has been steep decrease in current ratio to as low as 1.04 as on 2011-12 and the same trend continued even during the year 2012-13 indicating a value of 1.05.
 - The comparison of performance of KRDC is made with that of MPRDC in terms of projects completed, under construction and proposed projects. The comparison indicates that, MPRDC is more progressive as for as road projects are concerned.
 - KRDC has taken up some projects under PPP/BOT mode. Under different PPP / BOT mode it has developed 328.60 kms. roads, 83 kms. roads are in progress and roads with a total length of 895.23 kms. are proposed. Further, under PPP/BOT mode (OMT) the company has proposed for annual maintenance of 603 kms. length covering various stretches across the State and all put together a total length of **1306.83 kms.**
- In respect of MPRDC, the projects under BOT scheme comprise (i) 2,311 kms length of roads completed (ii) 1579 kms. length roads are under construction and 864 kms are under tendering stage with a total length of **4,754 kms.**

- Further, MPRDC, under ADB assistance has completed 3304 kms. length of roads and 1080 kms. length roads are under construction with a total of **4,384 kms.**

However, KRDCCL have not taken up road projects under ADB assistance, when compared to MPRDC.

- By MPRDC, under regular contract projects, 1249 kms length of roads are completed and 338 kms. length roads are under construction with a total of **1587 kms.**

Whereas under regular contracts, KRDCCL has completed only **940 kms.** roads at different stretches.

- Comparing the institutional developments, at MPRDC there is reduction in staff strength particularly of deputationists resulting in reduced overheads, deployment of quality control consultants with international expertise helped in increase of technical knowledge of Staff, provision for entry of outside contractors for ADB funded projects with introduction of advanced machinery & equipments, enhancement in the Capacity of the State Contractors in achieving quality projects. Development of environmental & MIS cell, development of asset inventory management system etc.,

In respect of KRDCCL, there is also an environmental cell headed by Environmental Manager and there is scope for strengthening it as a full pledged cell. There is need for asset inventory management system for accounting the details with respect to assets as part of MIS. As such KRDCCL has MIS information system, however, the same may be strengthened to function more effectively.

- MPRDC : During construction, quality measures are adopted comprising: 3-tier system of checking by PMC of concessionaire / contractor, Independent quality control engineer & Officers of Department to check. Field testing is mandatory as per the norms of MORTH, Graders used for maintaining the camber at sub grade / GSB level, Sensor paver used in place of mechanical paver for BT works, RMC plant used in place of normal concrete mixers.

At KRDCCL also, quality measures are adopted for checking the quality of road at appropriate stages. Field testing is mandatory as per the norms of MORTH.

- In long run, sustainability of MPRDC is well ensured through various measures viz., Creation of State highway fund, separate division for the maintenance of roads in the organization, Introduction of OMT system, Innovative financial models for new PPP projects, annual maintenance plans for each road and strict adherence. All these measures ensure higher income to the company and less dependence on its state. Whereas, KRDCCL is mainly dependent on grant from PWD / GoK for its regular road projects. There is no separate fund created for improvement of state highways and for the maintenance of roads. Currently, though OMT system is being introduced, however, there is scope for improvements in this regard. Introduction of all these measures would enable the company not to undergo cash losses and also there would be availability of funds for taking up new projects.

Recommendations

Based on the findings, conclusions and discussions had as part of the Study, the followings recommendations are suggested :

Short-term practicable recommendations

- To prioritize projects based on need and demand.
- To strengthen an environmental section as a full fledged cell.
- Introduction of asset inventorization and management system for day-to-day monitoring of the operations, administration, revenue generation etc.,
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