

## A. Company Background

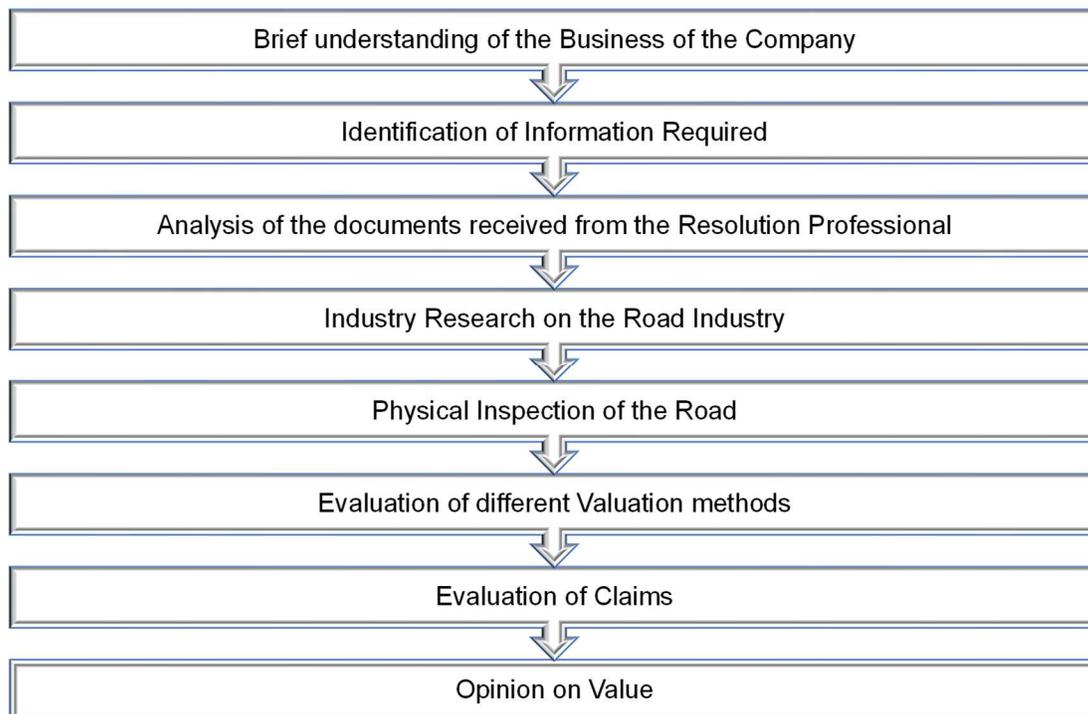
Corporate Debtor incorporated as a special purpose vehicle for construction of one-four lane and construction of one- two lane road on a build, operate and transfer (BOT) model for a State Government.

## B. Our Roles and Responsibility

We were appointed to determine the fair value and liquidation value of the Corporate Debtor. Our scope includes a detailed report on determination of fair value and liquidation value of securities and financial assets of corporate debtor.

## C. Project Execution Journey

We followed the following steps to execute the valuation assignment under consideration:



- a. We did a detailed round of discussion with team members of RP and project manager to understand the business in detail and gather the preliminary information of the project. In this discussion, we understood that the major revenue streams of the company were toll collection and commercial advertisements on the project site and major expenses included project operations expenses and maintenance of project road. Also, we were briefed that the toll collection rights were suspended by the court in response to a public interest litigation filed against the Company for non-maintenance of roads.
- b. Based on the discussions, we evaluated the project in detail and what further information was required for the purpose of valuation. Certain key information we requested were financial statements of the company, historical toll collection, details of traffic under different vehicle categories, details of claims and legal

cases, expected maintenance expenses required to restart the project and recent traffic study of the project site.

- c. On receipt of further information, we analyzed the documents and noted the following important points:
  - i. There were few pending legal cases against the company for which liabilities may arise in future
  - ii. Claims filed against the company for non-compliance of terms of concession agreement and counter claims filed by company on the state authority
  - iii. Traffic was showing a declining trend, due to non-maintenance of road and alternate route being built
  - iv. Projected traffic and viability of the project from the traffic study
  - v. Project was under stress for last few years, due to declining traffic and non-compliances of concession agreement
- d. To benchmark the projections and understand the industry outlook of the road industry, we extracted industry reports published by third parties. We analyzed these reports and benchmarked the industry historical traffic growths, future traffic growth outlook and government policies for road industry.
- e. Two valuers from our team visited the project site office built at the toll plaza. We were attended by the project operations supervisor, project manager was not available at the site. Before initiating the project inspection, we discussed the geographical location and alternate routes on a map from the operations supervisor.

We started the road inspection with operations supervisor and project engineer for the whole stretch of the road. We found that the road was not in good condition and a stretch of approximately 6 kms was in very bad condition. There were certain points we observed major path holes, which are prone to major accidents. We took the photographs of all these important points for our reporting purpose. It took around 3 hours to complete the whole road inspection.

While doing the road inspection we also observed the alternate routes, from which the toll can be avoided. We got to understand that there was an alternate road, which was rebuilt and opened for traffic 2 years ago. This alternate route created a significant impact on the project road traffic. Though this route was bit longer than the project road but due to non-maintenance and toll, alternate route was preferred by the traffic.

Once we reached back the toll plaza, we did a physical verification of traffic for 2 hours and analyzed the mix of traffic and number of vehicles. We also conducted

interviews with few staff members on the site, to understand the day-to-day operations.

- f. Based on all the analysis of information received and site inspection, we observed that the Company's intangible asset of toll collection rights was the only major asset to be valued.

As previously mentioned, the toll collection rights were suspended at the time of valuation for non-maintenance of roads by the court in response to a public interest litigation filed against the Company, due to this we considered cash flows under two scenarios.

- i. **Scenario 1: When the Company get right of toll collection for the balance period.** Under this scenario we assumed that the corporate debtor would operate the project and will continue to collect toll for the balance concession period. We concluded to apply the discounted cash flow method on the cash flow of the project to calculate the value of intangible assets of the company and added value of other assets and claims to conclude the total value of assets.

For the application of discounted cash flow method, we considered the cash flows based on the traffic study and made few adjustments in traffic growth, toll rates and operational expenses on the basis of industry analysis, national economy analysis and site inspection data. These cash flows were further discounted to calculate the present value of toll collection rights.

- ii. **Scenario 2: When the company would not get right of toll collection for the balance period.** Under this scenario, we applied asset approach, where the intangible asset would not have value as the company would not retain its right of toll collection. Therefore, we considered the 'zero' value of the Intangible Asset. Values under this scenario was majorly driven by the value of claims filed by the Company and other assets as on valuation date.
- g. The Company filed few claims against the state authorities as per the concession agreement for bitumen escalation, compensation for non-collection of toll for Bus/Truck, non-collection of toll due to suspension from government at the time of demonetization. We reviewed the applications and legal opinions of these claims to analyze the rights as per the concession agreement. These claims were partially approved by the state authority. We considered the value of claims, which were already approved by the state authorities and did not consider the value of claims under dispute.
  - h. We concluded the value of assets under the two scenarios mentioned above. The value determined was the fair value of the assets. For determination of the liquidation value, we further applied a discount on the fair value of assets considering the nature of asset.

#### **D. The key challenges in this assignment**

- a. There were significant delays in providing data. We made several rounds of follow ups for the data as the management were reluctant to provide the information.
- b. We rescheduled our site visit due to non-cooperation from the management, though the site staff was cooperative.
- c. We were denied the access of certain information, for which we gave our disclaimer in our report.
- d. We were not provided with the CIRP date balance sheet and we had to consider the last available balance sheet as the proxy to valuation date balance sheet.

#### **E. Key Takeaways**

- a. In the IBC assignments, the situation may be hostile in certain cases. But the valuer should ask the required information to reach at a fair conclusion.
- b. Benchmarking of analysis from the external sources leads to sanity check of the assumptions and leads to more accurate valuation.