

Review of appraisal methodology for projects

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Background

- Review of appraisal methodology for projects in view of:
 - Introduction of institutional financing of projects
- Board approved constitution of a Committee under EDFX-1 to review the principles
 - TOR
 - *To examine the principles, methodology and assumptions, including provisions of various Codes & Manuals, relating to calculation of ROR for Railway Projects;*
 - *To consider any factor which affect objectivity and transparency of the calculations and their uniform application over Railways*
 - *To consider factors which need to be taken into account for a realistic assessment of ROR and to improve objectivity and transparency, including calculation of Equity IRR and determining the bankability of projects based on recommendations made by SBICAPS on hurdle rate for EBR-IF funding.*

Recommendations

- Based on the recommendations of the Committee, the following is proposed:
 - *Codal revision for revising the ROR to 12% as a test of remunerativeness*
 - *Issue letter to all Zonal Railways for project appraisal reiterating the provisions of paras in the Code regarding calculation of requirement of Rolling Stock and calculation of earnings on the basis of OD flows.*

Recommendations (contd.)

- *take action for supplementing existing codal provision:*
 - *for accountal of savings due to detention of future projected additional traffic*
 - *to include a para on sensitivity analysis with illustrations*
 - *to include provisions and also sample calculations for calculating Equity IRR and Debt Service Coverage Ratio for debt funded projects*
 - *to include rules, as required, for appraisal of projects being considered for implementation through SPV/Participative policy models*
 - *work out illustrations related :*
 - Financial benefits regarding capacity augmentation of POH/rebuilding/rehabilitation of rolling stock
 - While introducing any new asset, cost of existing asset to be phased out prematurely must be taken in cash outflows
 - earning figures, considered for justifying one project, should not be taken into account, while financially appraising some other investment proposals on the same section

Thank you