

*Sector Specific Inventory & Institutional Strengthening for  
PPP Mainstreaming - Tourism Department*

**DEVELOPMENT OF  
CONVENTION CENTERS  
ON PUBLIC PRIVATE PARTNERSHIP MODEL  
AT VARIOUS LOCATIONS IN KARNATAKA**

**PRELIMINARY FEASIBILITY REPORT**

**APRIL 2012**

**FEEDBACK INFRA**  
Making Infrastructure Happen

*Karnataka*  
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## LIST OF ABBREVIATIONS

<b>BPO</b>	Business Process Outsourcing
<b>CAGR</b>	Compound Annual Growth Rate
<b>CMIE</b>	Centre for Monitoring Indian Economy
<b>DEA</b>	Department of Economic Affairs
<b>DoT</b>	Department of Tourism, Government of Karnataka
<b>F&amp;B</b>	Food and Beverages
<b>Gol</b>	Government of India
<b>GSDP</b>	Gross State Domestic Product
<b>IDD</b>	Infrastructure Development Department
<b>INR</b>	Indian National Rupee
<b>IRR</b>	Internal Rate of Return
<b>IT</b>	Information Technology
<b>Km</b>	Kilometer
<b>KSTDC</b>	Karnataka State Tourism Development Corporation
<b>MICE</b>	Meetings, Incentives, Conferences and Exhibitions
<b>MIS</b>	Management Information System
<b>NH</b>	National Highway
<b>NPV</b>	Net Present Value
<b>NSDP</b>	Net State Domestic Product
<b>PPP</b>	Public Private Partnership
<b>PSC</b>	Public Sector Comparator
<b>RFP</b>	Request for Proposal
<b>RoFR</b>	Right of First Refusal
<b>ROW</b>	Right of Way
<b>RTC</b>	Rights Tenancy & Crops
<b>SH</b>	State Highway
<b>Sq.Km.</b>	Square Kilometer
<b>TA</b>	Transaction Advisor
<b>TOR</b>	Terms of Reference
<b>VFM</b>	Value for Money

CHAPTER

1

EXECUTIVE SUMMARY

*Karnataka is the country's fifth most popular tourist destination. With the largest number of institutes in hotel management and catering technology in the country, the State has a large pool of skilled human resources. The Sector is attracting significant investment by domestic and global players as infrastructure is being ramped up to meet the needs of the growing tourist activity. Through the Karnataka Tourism policy 2009-14, the state government sets a vision to promote tourism as Karnataka's principal and largest economic activity, as an employer, revenue-generator and engine of growth, by being among the top two tourism destinations in India by 2016-17.*

*In this context, M/s Feedback Infrastructure Services Private Limited, New Delhi has been engaged by the Infrastructure Development Department, Government of Karnataka for providing Consultancy Services for "Institutional Strengthening & Sector Specific Inventory for PPP Mainstreaming in Tourism Sector".*

*The PPP concept is relatively new and the implementing officers require necessary insight, orientation and assistance into the project development for effective marketing and implementation of the projects. Hence, the basic aim of the assignment is to strengthen the project development process in the Tourism Department for implementing Tourism Infrastructure Projects through Public Private Partnership (PPP).*

*The Present deliverable has been prepared as a Preliminary Feasibility Study with an objective to provide an insight of financial viability of the envisaged project – "Development of Convention Facilities at Mangalore and Mysore through Public Private Partnership". The report also presents various project structuring options, applicable laws & acts with legal and regulatory framework which shall be considered while implementing the project through PPP. The report concludes with recommendations on the project structure and concession period considering the financial viability and nature of the project.*

*Results of financial analysis shows that Post Tax Equity IRR of the project is coming out to be 21% and 25% for the site at Mangalore and Mysore respectively, which is higher than the target of 20%, which is IRR that investors will most likely seek from such an investment. And considering a discount rate of 20%, the NPV of equity cash flows, which symbolizes the surplus generated by the project, while insuring 20% returns on developer's equity, comes out to be INR 98.1 Lakh and 1079.1 Lakh for the site at Mangalore and Mysore respectively. This indicates that the envisaged projects at Mangalore and Mysore have potential to generate INR 98.1 Lakh and 1079.1 Lakh respectively in NPV terms, which is the indicative amount that DoT may receive from the private developer/s.*



## CHAPTER

# 2

## INTRODUCTION

### 2.1 ASSIGNMENT BACKGROUND

Karnataka State possesses various attractive spots of natural beauty and rich cultural heritage. There is an array of ancient sculpture site of heritage value, breathtaking landscape, exotic wildlife, temple towns, Heritage sites, Temples, Forts, Sandalwood Forests, Coffee plantation, Water Falls, Wildlife, Western Ghats, Hill Stations. In this background, there are ample opportunities for tourism in Karnataka having traditional tourist spots, temples with good sculptural glory, religious places, seashores with spectacular beauty Malnad area and good climatic conditions. In the year 2010, Karnataka ranked fifth among States as a tourist destination with around 3.8 lakh international and over 382 lakh domestic tourists visiting the State. The State has the second-highest number of protected monuments in the country (507 centrally and 750 additional protected by the State Governments) to nature and wildlife – there is much to draw the tourist to Karnataka.

Karnataka is the country's fifth most popular tourist destination. With the largest number of institutes in hotel management and catering technology in the country, the State has a large pool of skilled human resources. The Sector is attracting significant investment by domestic and global players as infrastructure is being ramped up to meet the needs of the growing tourist activity. Through the Karnataka Tourism policy 2009-14, the state government sets a vision to promote tourism as Karnataka's principal and largest economic activity, as an employer, revenue-generator and engine of growth, by being among the top two tourism destinations in India by 2016-17.

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### 2.2 NEED OF THE ASSIGNMENT

In Karnataka 105 PPP projects worth Rs. 80,000 crores are at various stages of development and implementation. In addition to the above projects in pipe line, 30 pre-feasibility studies have been undertaken and nearly 30 are being planned as a part of this assignment out of which 5 pre-feasibility studies shall be of the projects pertaining to the tourism sector. To develop these projects it requires generating an inventory of projects, undertaking pre-feasibility studies, identification of Transaction Advisor (TA) for projects to be taken for bidding. Further the tourism department would require hand-holding during the project development process in areas of information generation /

sharing, monitoring of projects, etc. For mainstreaming PPP in tourism sector / department there is a need to build institutional capacity through manning and training. The information on projects that are generated out of this process need to be initially marketed through workshops before they are bid-out with the assistance of respective Transaction Advisors.

## 2.3 OBJECTIVE AND SCOPE OF WORK

The main purpose of the consultancy service is to assist the Infrastructure Development Department, Government of Karnataka in undertaking the following activities:

### 2.3.1 Strategic Objectives

- Providing assistance in organizing an initial workshop in the tourism sector.
- Drawing up the Tourism Sector inventory and undertaking five pre-feasibility studies.
- Preparation of Procurement Plan for Selection of Transaction Advisors/ Technical Consultant for the above identified projects.
- Providing assistance in Information collation / updation about the programmes / projects in necessary websites / MIS
- Providing assistance in creating a PPP cell within the Tourism department to institutionalize the PPP mainstream.
- Capacity building of the Department's PPP cell personnel in areas of appraisal of studies, appraisal of bid documents and MIS.
- Providing assistance in investor meet for the Tourism Sector as sector knowledge partner.

### 2.3.2 Detailed Scope of Work

The detailed scope is as below:

- i) Providing assistance in organizing an initial workshop in the tourism sector:** To help in organizing a workshop in order to understand the tourism sector requirement, learnings from best practices from India and abroad about programmes and projects implemented successfully through PPP and draw up a tourism sector inventory of PPP projects that can be implemented in Karnataka.
- ii) Drawing up the Tourism Sector inventory and undertaking five pre-feasibility studies:** To undertake five pre-feasibility studies and finalise the tourism sector inventory. Part I- Assessment and ranking of 10 possible locations in the state where a particular facility to meet public need can come up based on economic criteria, financial analysis and their strategic importance to the state etc. Part II- Detailed Study for three locations based on the above ranking; locations will be identified in consultation with the tourism department and the IDD.
- iii) Preparation of Procurement Plan for Selection of Transaction Advisors/ Technical Consultant for the above identified projects:** To prepare a procurement plan for selection TA/ tech consultant(if needed) for projects resulting out of the pre-feasibility studies already

undertaken earlier or as a part of this assignment. Procurement Plan will include: (a) TOR for Transaction Advisor/ Technical Consultant including task, Deliverables and Timeline; (b) Experience required for firm and experts for Transaction Advisor/ Technical Consultant; (c) Evaluation Matrix (This will be moderated by the Tourism Department/ IDD to remove any bias). To train the department personnel to select TA/ technical consultant for other projects.

- iv) Providing assistance in Information collation / updation about the programmes / projects in necessary websites / MIS:** To collate and provide programme / project related information in the websites of Tourism Department / IDD / Project Review Unit (PRU) and train the department personnel on the same.
- v) Providing assistance in creating a PPP cell within the Tourism department to institutionalize the PPP mainstream:** To assist the Tourism Department in creation of a PPP cell by providing necessary assistance for administrative approval like draft Government Order / Cabinet Note. To train the personnel in the cell to undertake project monitoring by functioning also as a Project Monitoring Unit.
- vi) Capacity building of the Department's PPP cell personnel in areas of appraisal of studies, appraisal of bid documents and MIS:** To provide assistance in training PPP cell personnel in areas of appraisal of studies, projects and appraisal of bid documents by using available tools (DEA Toolkits) or developing newer tools. To provide hands-on training to PPP cell personnel and to identify 30 to 50 personnel within the department / sector / underlying agencies covering various functional areas like engineering, finance, commerce & legal under DEA Program.
- vii) Providing assistance in investor meet for the Tourism Sector as sector knowledge partner:** To draw up the tourism sector investment potential in the State and to assist the Tourism Department & State as knowledge partner (to prepare brochure and presentation with project profile) in undertaking Investor Meet where the potential projects will be show cased.

## 2.4 THE PRESENT DELIVERABLE

This report has been prepared as a Preliminary Feasibility Study with an objective to provide an insight of financial viability of the envisaged project. The report also presents various project structuring options, applicable laws & acts with legal and regulatory framework which shall be considered while implementing the project through PPP. The report concludes with recommendations on the project structure and concession period considering the financial viability and nature of the project.

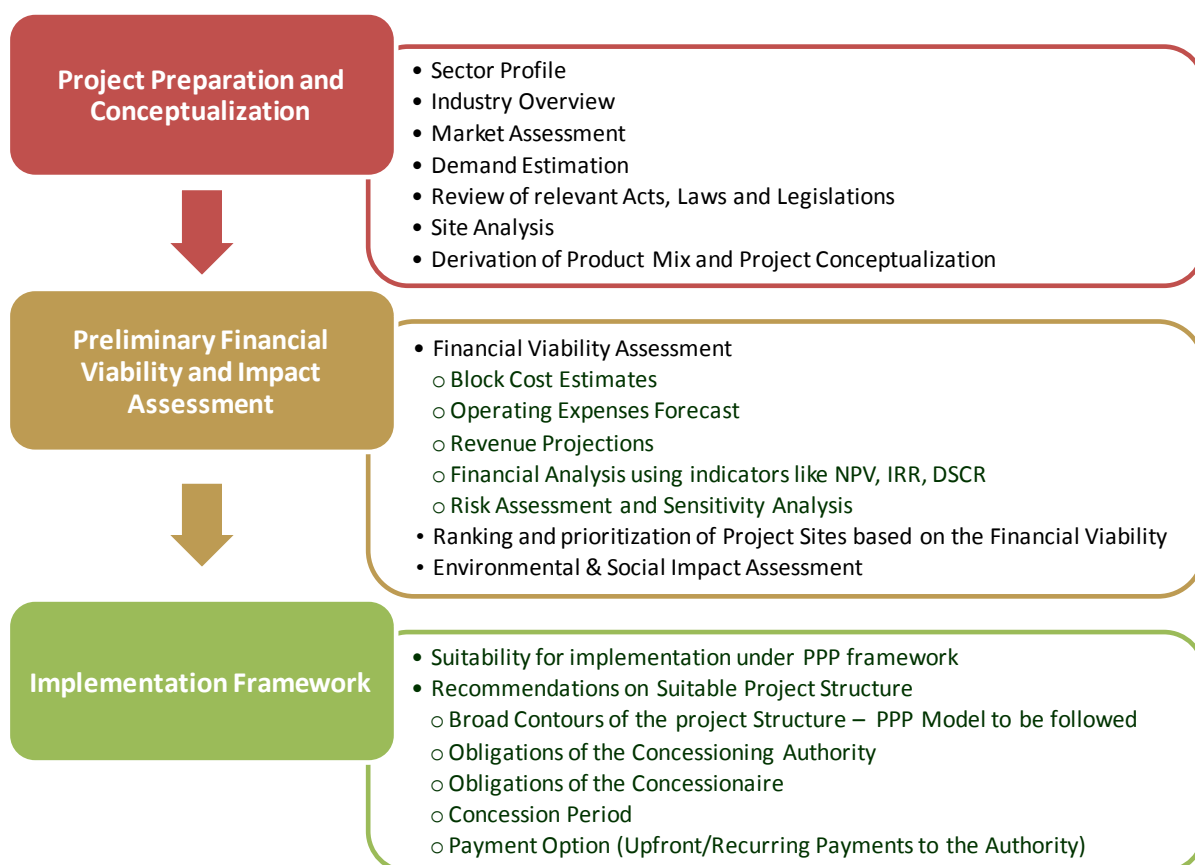
## CHAPTER 3 APPROACH AND METHODOLOGY FOR PRESENT DELIVERABLE

### 3.1 APPROACH

A stage wise approach for the subject assignment will be adopted. The approach will include:

- Research supported with quantitative and qualitative analysis
- Collection of data from authentic sources
- Cross checking of data before using for analysis
- Validation of the outputs at appropriate levels in the organization
- Validation of viability with the market players
- Inputs on the attractiveness of the proposed PPP structure
- Continuous feedback and inputs from the client etc.

The above mentioned approach and the following methodology will be adopted to undertake the study. The activities to be performed can be clubbed in following three major parts:



## 3.2 METHODOLOGY

Following section describes the activities and research methods which will be used to undertake the assignment:

### 3.2.1 Project Preparation and Conceptualization

- **Sector Profile and Industry Overview:** Sector Profile will detail out the overview of the sector, key issues, need of project etc. As a part of secondary research, documents like Karnataka Tourism Master Plan, Karnataka Tourism Policy, Vision Plans, Previous Reports in the tourism sector, etc will be review and analysed to understand the regional profile and get an overview of the tourism industry. The consultations with various stakeholders will also be used to get a firsthand experience of various development issues pertaining to the sector.
- **Market Assessment and Demand Estimation:** In order to know the marketability of the project, analysis of demand supply scenario of project components in areas of influence, will be conducted. Various demand-supply parameters influencing the marketability of the tourism infrastructure project (e.g. typology, absorption, pricing trends) will be studied and analyzed. Preliminary benchmarking analysis will be conducted to understand positioning of the tentative product mix. A mix of secondary and primary survey techniques will be used, which include discussion with various players in market like developers, investors etc.
- **Review of relevant Acts, Laws and Legislations:** Review of existing development bye Laws and regulations will be undertaken. The development control rules, zoning rules and other relevant laws and rules will be reviewed in the context of subject development.
- **Study of identified Sites and SWOT Analysis:** The identified sites will be studied in order to understand its suitability potential for the kind of development, which is envisaged. Various factors influencing the site's potential like accessibility, linkages, physical features, economic activities and developments in proximity, proximity to important commercial, transportation and residential hubs etc will be analysed. Strengths, Weaknesses, Opportunities, Threats (SWOT) analysis will be conducted. Primary and secondary research tools like interviews, reconnaissance survey, study and analysis of available media and research reports, will be used at this stage.
- **Derivation of Product Mix and Project Conceptualization:** Based on sector profile and need of the development, projects will be conceptualised and its broad contours will be identified. Broad contours will include the project components, area requirements, investment requirements etc. Case studies of similar project executed elsewhere will be conducted to understand its various technical, legal and financial aspects. Based on demand assessment, a

product mix will be derived. Product mix will identify activities to be carried out and broad guidelines for location in the site and areas required.

### 3.2.2 Preliminary Financial Viability and Impact Assessment

- **Financial Viability Assessment:** Based on the data collection, analysis and discussions with stakeholders concerned a financial model would be prepared. Suitable assumptions regarding the cost, revenue sources and expenses would be made. A preliminary financial feasibility would be undertaken to assess the development potential of the site. The financial feasibility analysis would consist of:
  - Cost Estimation (Capital as well as recurring Expenses) - The cost of implementing the above conceptualized project would be derived. Operating expenses will be estimated based on the proposed usage pattern and base cost for the operating various project components like electricity, water, housekeeping, landscaping, security etc. The base cost for O&M will be arrived at after analyzing expenditure pattern for the similar projects which are already operational. An appropriate percentage will be applied for the projection of cost in upcoming years.
  - Identification of various Revenue Streams and Revenue Projections - Revenue projections will be done based on proposed occupancy pattern and base price/user charges for the proposed activities. The base price for activities will be determined after benchmarking analysis with other facilities which are similar in configuration. An appropriate percentage will be applied for the projection of revenue in upcoming years.
  - Financial Viability Assessment - Financial analysis will be undertaken to understand the project's potential to generate sufficient returns in order to make it a commercial venture. Various financial indicators like Net Present Value (NPV), Internal Rate of Return (IRR), Debt Service Coverage Ratio (DSCR), Value for Money (VFM), etc. will be analyzed to estimate the project's viability.
  - Scenario generation and Sensitivity Analysis - The analysis of various risks like decrease in footfalls, competition faced from the existing similar facilities etc will be analysed and factored-in the financial analysis.
  - Recommendations on the best option based on commercial viability.
- **Environmental & Social Impact Assessment:** A preliminary assessment will be done to understand environment & social impacts of the project and respectively mitigation measures will be identified to address the key issues.

### 3.2.3 Implementation Framework

- **Suitability for implementation under PPP framework:** The project to be undertaken under PPP should have sufficient profit generating potential, in order to attract the private bidders. If there is any viability gap, that would be filled with the government's grant or some other



alternate sources. Based on financial analysis results, it will be analyzed whether the project is suitable to be undertaken under PPP framework or not.

- **Recommendations on Suitable Project Structure:** Based on project financials and impact assessment an implementation strategy will be worked out and a suitable structure of PPP transaction will be finalized at this stage. Various options for structuring the transaction having varying possibilities of risks and liabilities for both the parties of transaction will be suggested. The following broad modalities will also be suggested:
  - Broad Contours of the project Structure – PPP Model to be followed
  - Obligations of the Concessing Authority
  - Obligations of the Concessionaire
  - Concession Period - duration of PPP contract
  - Payment Option (Upfront/Recurring Payments to the Authority)

CHAPTER

4

TOURISM SECTOR PROFILE

4.1 AN OVERVIEW OF THE STATE

4.1.1 General Overview



Figure 4.1: Karnataka - Physical Map

Karnataka is a state in South West India located in the western half of the Deccan plateau. Karnataka is bordered by the Arabian Sea to the west, Goa to the northwest, Maharashtra to the north, Andhra Pradesh to the east, Tamil Nadu to the southeast, and Kerala to the southwest. The state covers an area of 1,91,976 sq.km. (74,122 sq.mile) or 5.83% of the total geographical area of India. It is the eighth largest Indian state by area. With over 61 million inhabitants (2011), Karnataka is the ninth largest state by population, comprising 30 districts. Physiographically, the state forms a part of two well defined macro regions of Indian Union; the Deccan Plateau and

the Coastal plains and Islands. The State has four physiographic regions viz. Northern Karnataka Plateau, Central Karnataka Plateau, Southern Karnataka Plateau and Karnataka Coastal Region.

Karnataka is well connected by a wide network of air, rail and road with important destinations of the country as well as of the globe. Bangalore being the capital of the state is well connected by air, rail and road.

- **By Air:** The state has 6 airports located in Bangalore, Mangalore, Hampi, Hubli, Mysore, Belgaum and Bijapur. The Mysore airport is not operational at the moment. Bangalore has an international airport that operates flights to important destinations across the globe.
- **By Rail:** Karnataka has a well maintained network of rails connecting important destinations of the state. Bangalore is the most important railhead, served with express and super-fast trains to/from different parts of the country.
- **By Road:** The excellent road network of the state offers a comfortable and hassle free journey to the visitors by bus or car. Major cities and tourist destinations of South India can be approached by road from Bangalore.

#### 4.1.2 Economic Overview

The state offers a wide range of fiscal and policy incentives for businesses under the New Industrial Policy, 2009-14. Additionally, the state has well drafted sector-specific policies for biotechnology, IT, Business Process Outsourcing (BPO) and textiles.

The state has well-developed social, physical and industrial infrastructure and virtual connectivity; has good supply and distribution of power, seven airports and substantial port infrastructure (one major and ten minor ports).

Karnataka has emerged as a key state with knowledge-based industry such as IT, biotechnology and engineering. The state also leads in electronics, computer software and biotechnology exports, with US\$ 19.13 billion for 2009-10. It is the science capital of India with more than 100 Research and Development (R&D) centres, and a preferred destination for multinational corporations with more than 650 such companies.

Following are some key snapshots of the economic indicators for the state:

#### GSDP

- At current prices, the Gross State Domestic Product (GSDP) of Karnataka was about US\$ 70.8 billion in 2009-10.
- State's average GSDP growth rate between 2004-05 and 2009-10 was about 13.9 percent

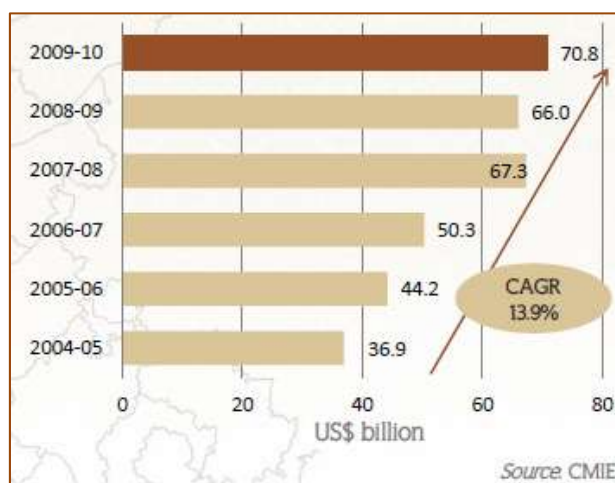


Figure 4.2: Karnataka GSDP, 2004-2010

### NSDP

- The Net State Domestic Product (NSDP) of Karnataka was about US\$ 62.5 billion in 2009-10.
- The average NSDP growth rate between 2004-05 and 2009-10 was 13.6 %.

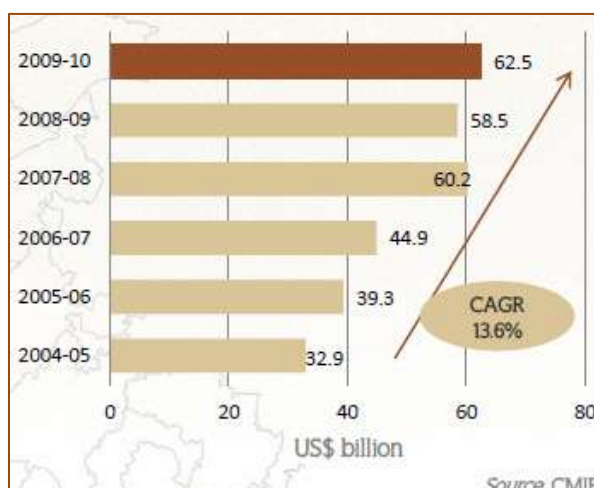


Figure 4.3: Karnataka NSDP, 2004-2010

### Per Capita GSDP

- The state's per capita GSDP in 2009-10 was US\$ 1,209.4.
- The per capita GSDP increased at a CAGR (Compound Annual Growth Rate) of 12.5 per cent between 2004-05 and 2009-10.

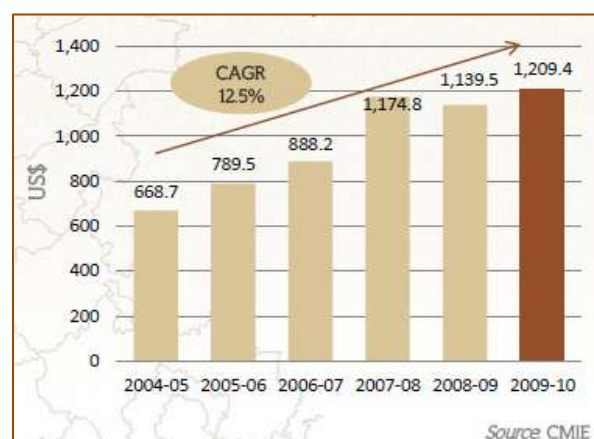


Figure 4.4: Karnataka Per Capita GSDP, 2004-10

### Per Capita NSDP

- The state's per capita NSDP in 2009-10 was US\$ 1,068.8.
- The per capita NSDP increased at a CAGR of 12.4 per cent between 2004-05 and 2009-10.

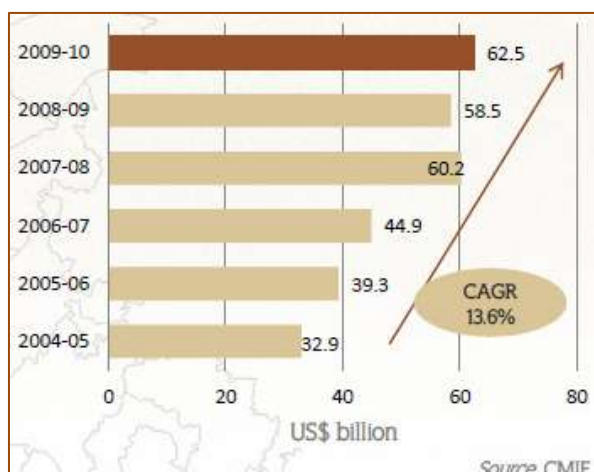


Figure 4.5: Karnataka Per Capita NSDP, 2004-10



### Percentage Distribution of GSDP

- In 2009-10, the tertiary sector contributed 54.1 per cent to the state's GSDP at current prices, followed by secondary sector (28.1 %) and tertiary sector (17.8 %).
- At a CAGR of 16.3 %, the tertiary sector has been the fastest growing among the three sectors from 2004-05 to 2009-10.

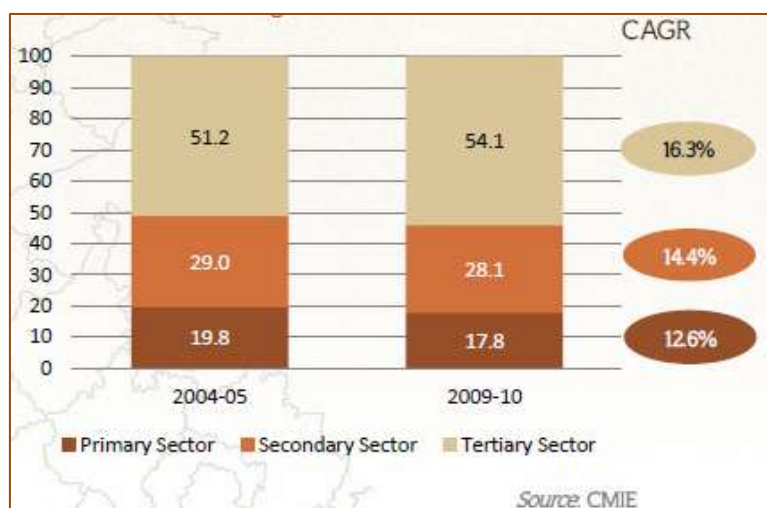


Figure 4.6: Karnataka Percentage Distribution of GSDP, 2004-05 and 2009-2010

The growth has been driven by trade, hotels, real estate, finance, insurance, transport, communications and other services.

- The secondary sector grew at a CAGR of 14.4 % between 2004-05 and 2009-10. It was driven by manufacturing, construction and electricity, gas and water supply.
- The primary sector grew at a CAGR of 12.6 % between 2004-05 and 2009-10.

#### 4.1.3 Tourism Sector Overview

Karnataka with its great Heritage and Cultural Background has vast potential for the sustainable development of tourism industry. State Government has declared 'Tourism as an industry' since 1988. The Department has brought out a series of Tourism Policies with the package of incentives, concessions and subsidies for development of Tourist Infrastructure in the State through the private investment. Tourism has been given priority and it is instrumental for Socio-Economic growth of the State as well as providing lot of employment opportunities for both skilled and unskilled man power. The tourist flow in to the State has been increasing steadily in the last decade.

In view of integrated development of tourism, the State government has announced new tourism policy for 2009-14. In the overall period of this policy (5 years), it is estimated that Rs.25,000 crore of private investment will be invested in the

#### **KARNATAKA TOURISM POLICY 2009-14**

##### **Mission**

*Exponentially enhance and tap the tourism potential of Karnataka; coordinate to deliver a leisure experience that is engaging and gives value for money to the tourists. This is to be ensured in an effective, efficient and outcome-based manner.*

##### **Vision**

*Make tourism Karnataka's principal and largest economic activity, as an employer, revenue-generator and engine of growth, by being among the top two tourism destinations in India by 2016-17.*

##### **Values**

*The values of "Punniya Koti" enshrined in Karnataka's culture will form the hallmark to ensure hospitality services to foreign and domestic tourists i.e., "Promises Made and Kept".*

tourism sector. And in the same period 29 to 41 lakhs of employment opportunity will be generated. To minimize the financial burden, the PPP scheme has also been introduced to attract more number of mega investors. Revenue realised by the tourism in Karnataka by the three organization viz., Directorate of Tourism, Jungle Lodges & Resorts Ltd. and Karnataka Tourism Development Corporation during the year 2007-08 was Rs 62.77 crore and it was Rs 68.98 crore in the year 2009-10.

Karnataka is the country's fifth most popular tourist destination. With the largest number of institutes in hotel management and catering technology in the country, the State has a large pool of skilled human resources. The Sector is attracting significant investment by domestic and global players as infrastructure is being ramped up to meet the needs of the growing tourist activity.

## 4.2 TOURISM SCENARIO IN THE STATE

### 4.2.1 Introduction

Karnataka State possesses various attractive spots of natural beauty and rich cultural heritage. There is an array of ancient sculpture site of heritage value, breathtaking landscape, exotic wildlife, temple towns, Heritage sites, Temples, Forts, Sandalwood Forests, Coffee plantation, Water Falls, Wildlife, Western Ghats, Hill Stations. In this background, there are ample opportunities for tourism in Karnataka having traditional tourist spots, temples with good sculptural glory, religious places, seashores with spectacular beauty Malnad area and good climatic conditions. In the year 2010, Karnataka ranked fifth among States as a tourist destination with around 3.8 lakh international and over 382 lakh domestic tourists visiting the State. The State has the second-highest number of protected monuments in the country (507 centrally and 750 additional protected by the State Governments) to nature and wildlife – there is much to draw the tourist to Karnataka.

#### Significance of Tourism in the State:

As an industry, Tourism industry has the highest Multiplier Effect due to its strong linkages with socio-economic development of the society. The development in tourism sector not only directly affects increased revenue generation of the state from the outside visitors (both domestic and foreign) but also enhances employment and income generation at the local levels. Being a labour intensive industry, tourism related activities generate income and employment particularly for women, rural artisans, educated unemployed and youths. Furthermore, as the development of the tourism sector is basically an integrated one, it also facilitates developments in other related sectors/industries like Power, Water, Transportation, Agriculture and Allied, Small-Scale sectors (like Handicraft, Handlooms, Artisan etc), Hotel etc.

- *The state currently ranks as the 5<sup>th</sup> most popular destination in the country.*
- *Around 38.2 million domestic tourists and 3,80,995 foreigners visited the state during the year 2010.*
- *The state attracts around 5.1% of the total tourist arrivals to India.*
- *Total revenue from tourism increased at a CAGR of 53% between 2005-06 and 2008-09 to reach US\$ 2095 Million.*
- *63% increase is anticipated in foreign exchange earnings from US\$ 104.1 Million in 2010 to US\$ 169.5 Million in 2020.*



#### 4.2.2 Key Tourist Destinations

Broadly, tourist destinations in Karnataka can be divided into the following categories:

- Heritage Destinations
- Natural and Hill Destinations
- Wildlife Destinations
- Coastal Destinations
- Cultural Destinations
- Adventure Destinations



Figure 4.7: Tourist Clusters in Karnataka

#### 4.2.2.1 Popular Tourist Destinations

CATEGORY	PLACES
<b>Heritage</b>	Hampi, Badami, Pattadakal, Aihole, Lakkundi, Kittur Chennamma Fort, Chitradurga Fort, Bijapur, Gulbarga, Bidar, Mysore Palace, Srirangapatna, Somnathpur, Belur, Halebeedu, Bangalore Palace, Tipu's Fort and Palace, Bellary Fort, Adi Chunchanagiri
<b>Natural</b>	Coorg, Agumbe, Kemmangundi, Nandi Hills, Chikmagalur, Jog Falls, Unchalli Falls, Magod Falls, Hebbe Falls, Shivanasamudra Falls, Abbey Falls, Iruppu Falls, Kalhatti Falls, Lalguli Falls, Sathodi Falls, Gokak Falls
<b>Wildlife</b>	Bandipur National Park, Rajiv Gandhi National Park, B R Hills Sanctuary, Ranganathittu Bird Sanctuary, Kokkrellur Pelicanry, Kaggaladu Heronry, Bannerghatta National Park, Anshi National Park, Dandeli Wildlife Sanctuary, Gudavi Bird Sanctuary, Bhadra Wildlife Sanctuary, Kudremukh National Park, Chamarajnar, Dubare Elephant Camp
<b>Coastal</b>	Karwar, Kurumgad, Gokarna, Marawanthe, St. Mary's Island, Murudeshwar, Malpe, Kaup, Mangalore
<b>Cultural</b>	Udupi, Dharmasthala, Murudeshwara, Shravanabelagola, Moodabidri, Karkala, Sringeri, Shivaganga, Talakad

#### 4.2.3 Tourist Circuits

Five circuits have already been identified by the Government of Karnataka to develop tourism infrastructure and in order to identify new tourism destinations. Apart from these five circuits, as a part of their ongoing activities to boost up tourism sector in the state, they are also trying to develop some more attractive tourist circuits. However, these are yet to be given a concrete shape. The five circuits which have been already identified by the state government are as follows:

- (i) Northern Circuit
- (ii) Southern Circuit
- (iii) Coastal Circuit
- (iv) Wildlife Circuit
- (v) Hill Resort Circuit

##### 4.2.3.1 Northern Circuit

The Northern Circuit consists of Northern Districts of Karnataka namely Belgaum, Bijapur, Dharwar, Bidar, Gulbarga, Raichur, Bellary and Chitradurga. Once the capital of the early Chalukyan dynasty (6th to 8<sup>th</sup> centuries), Aihole and Patadakal (Bagalkot District), are picturesque villages on the banks of the Malaprabha river and are historically famous as the cradle of Hindu temple architecture built between the 6th & 8th centuries and some even earlier. Badami is known for its rock-cut cave temples. Hampi - a world heritage centre which is the ruins of the great capital of Vijayanagar dynasty is also a part of the circuit. The Virupaksha Temple, one of the best attractions, is still being

worshiped. The inverted shadow of the Gopuram (gate) of the temple is an amazing attraction. The other major attractions in this ruined city are: the Stone Chariot, Ugra Narashimha, King's Balance, Lotus Mahal, Queen's Bath, Elephant stable, the musical Temple etc.

The other destinations of the northern circuit like Bijapur, Bidar, Belgaum and Chitradurga are mostly historically important heritage and pilgrim centres. Temples, Monuments and Forts are the major tourist attractions of this circuit.

#### **4.2.3.2 Southern Circuit**

The Southern Circuit consists of Districts of Bangalore, Mysore, Mandya, Hassan, Kolar, Shimoga, Chikmagalur and Tumkur. The southern circuit includes Bangalore, the capital of Karnataka. Bangalore ranks as one of the fastest growing cities in Asia and is also known as "Garden City of India" "IT Hub" etc. Mysore is also known as the City of Palaces and the political capital of the Wodeyar dynasty. Mysore City also possesses a number of gardens, shady avenues and sacred temples. Carnatic Classical music and dance is also a prominent aspect of the city. The other major destinations of the circuit include Srirangapatna which was once the capital of the warrior king Hyder Ali and his son Tipu Sultan. There are beautiful monuments that are well worth a visit. Bandipur national Park which is one of the most beautiful wide life centers in the country also is an attraction besides Ranganathittu bird sanctuary housing exotic birds.

The other major places of tourist attraction are Musical fountain of Brindavan Garden, Mandya, the architectural and pilgrim centres of Belur, Halebid, Shravanabelagola, Jog falls of Shimoga, the Coffee estate and pilgrim centres of Chikmagalur etc.

#### **4.2.3.3 Coastal Circuit**

The coastal circuit consists of the coastal districts of Uttar Kannada, Udupi and Dakshin Kannada. Uttar Kannada is considered to be the eco-tourist's paradise is a place of immense natural beauty. Its wide variety includes Beaches, Wild life sanctuaries, Scenic views, Adventure sports, Rock climbing and also religious shrines. Dakshin Kannada is surrounded by the soaring Western Ghats and Arabian Sea, the district is blessed with lush green vegetation, abundant rain fall, beautiful beaches, picturesque mountain ranges, temples and many more. The place is also known for its Buffalo racing by the farmers. The major attractions in and around the Dakshin Kannada are Kollur the home of Goddess Mookambika, Dharmasthala, Kukke Subramanya, Jamalabad, Karkala, Moodabidri, Udupi and many beautiful beaches.

#### **4.2.3.4 Wild Life Circuit**

The wild life circuit consists of Wild Life Sanctuaries, National Parks and Bird Sanctuaries. There are 5 National Parks, around 22 Sanctuaries and around 3 Jungle Lodges and Camps. Bandipur National Park nesting in the foothills of the Nilgiris, Kabini -situated amidst the Kharapur Forest, Kabini is the pristine pieces of land that abound with nature. Ranganathittu Bird Sanctuary, Mysore is a paradise for wildlife enthusiasts. Crocodiles basking under the sun, otters running free, flocks of birds gathered on tiny islands are some rare sights of the place. Birds from Siberia, Australia and even North America can be spotted here. Some of the rare birds like Bill Stork, The White Ibis, Egret,

Heron, Partridge or even the Cormorant can be spotted. The Nagarahole National Park, situated in the picturesque districts of Kodagu and Mysore in southern Karnataka has lush green vegetation, swamps and numerous water resources, rendering it an ideal habitat for a wide variety of wildlife and is wonderful attraction.

The other wildlife attractions of Karnataka includes Bandipur National Park, Bheemeshwari, Bhadra, B.R. Hills (Biligiri Hills), Dandeli, Kemmanagudi Wild life Adventure Resort etc.

#### 4.2.3.5 Hill Resort Circuit

The Hill circuit covers the Hill stations of Mercara, Kemmannagundi, Kudremukh, Male Mahadeshwara Hills, BR Hills, Sandur, Nandi Hills and Jog Falls. Madikeri or Mercara, the district headquarters of Kodagu (or Coorg) also known as the Scotland of India, is gradually catching up as one of the most sought after Hill stations of the country. The other major Hill resorts of the state are Biligirirangana range of hills, picturesquely situated at a height of 5,091 feet between the Cauvery & Kapila rivers, Kemmannagundi which is a scenic hill station on the Baba Budan range of hills, Kudremukh (Horse Face), also known as K.R. Hills which overlooks the Arabian sea and Nandi Hills which is located near Bangalore.

#### 4.2.4 Trends in Tourist Arrival

The state currently ranks as the 5th most popular destination in the country. Around 382 Lakh domestic tourist and 3.8 lakh foreigners visited the state during 2010. Table 4.1 shows the domestic and foreign tourist arrivals in Karnataka during last decade. Karnataka accounted for around 2.1% of the total foreign tourists visiting India during the year 2010 and ranked 11th among all the Indian states. The states which are ahead of Karnataka in terms of foreign tourist visiting Karnataka arrivals are Maharashtra, Tamil Nadu, Delhi, UP, Rajasthan, West Bengal, Kerala, Bihar, Himachal Pradesh and Goa. Domestic tourists for the same period accounted for 5.2% of the total domestic tourists visiting different destinations in India and ranked 5th among all other Indian states only after AP, UP, Tamil Nadu and Maharashtra.

*Table 4.1: Domestic and Foreign Tourist Arrivals in Karnataka, 2001-2010*

Year	Domestic Tourists			Foreign Tourists			Total Tourists		
	Karnataka	India	Karnataka's share	Karnataka	India	Karnataka's share	Karnataka	India	Karnataka's share
	(in Lakhs)			(in Lakhs)			(in Lakhs)		
2001	141.2	2364.7	6.0%	1.4	54.4	2.6%	142.6	2419.1	5.9%
2002	86.8	2696.0	3.2%	0.6	51.6	1.2%	87.4	2747.6	3.2%
2003	111.8	3090.4	3.6%	2.5	67.2	3.7%	114.3	3157.5	3.6%

Year	Domestic Tourists			Foreign Tourists			Total Tourists		
	Karnataka	India	Karnataka's share	Karnataka	India	Karnataka's share	Karnataka	India	Karnataka's share
	(in Lakhs)			(in Lakhs)			(in Lakhs)		
2004	271.9	3662.7	7.4%	5.3	83.6	6.3%	277.2	3746.3	7.4%
2005	304.7	3919.5	7.8%	5.5	99.5	5.5%	310.2	4019.0	7.7%
2006	362.0	4617.6	7.8%	5.1	117.5	4.3%	367.0	4735.1	7.8%
2007	378.3	5265.6	7.2%	5.3	132.3	4.0%	383.6	5398.0	7.1%
2008	128.0	5630.3	2.3%	3.2	143.8	2.2%	131.1	5774.2	2.3%
2009	327.0	6688.0	4.9%	3.3	143.7	2.3%	330.3	6831.7	4.8%
2010	382.0	7402.1	5.2%	3.8	178.5	2.1%	385.8	7580.7	5.1%

Source: Ministry of Tourism, Government of India

The foreign tourists who come to Karnataka are mainly from USA, UK, Australia, The Netherlands, Germany, France and other European nations, Japan, South Korea, Singapore etc whereas the domestic tourists who visit the state are mainly from Maharashtra, Andhra Pradesh, Tamil Nadu, Kerala, Delhi, UP, West Bengal, Orissa etc.

#### 4.2.5 Strengths and Weaknesses of Karnataka as a Tourist Destination

The strengths of Karnataka as a tourist destinations are as follows:

- Presence of rich flora and fauna, historical forts and royal palaces, temples and heritage sites, beaches and hills, wild life and bird sanctuaries
- Variety of potential tourist attractions within short distances
- Virgin and unexplored destinations
- Adequate availability of Infrastructure like Power, Water and Communication
- Largely literate local community
- Brand Image of Bangalore as IT Hub all over the world
- Stable Government and Transparent administration
- The climate essentially being a tropical monsoon type is a joy for the visiting tourists
- Land of peace and communal harmony

The weaknesses of Karnataka as a tourist destinations are as follows:

- The image of Karnataka as a Technology Capital of India than a Tourist destination amongst both Indians and foreign tourists
- Most of the major destinations are stand alone and far off from Bangalore
- Poor accessibility to many tourist destinations due to basic Infrastructure bottlenecks
- Lack of tourist infrastructure & basic amenities at many tourist destinations
- Lack of information about tourist destinations
- Limited awareness among local community and misconceptions that tourism will bring environmental and social problems
- Unaggressive marketing and promotion of the tourist destinations

#### 4.2.6 Initiatives by the Department of Tourism

In order to maximize impact, Karnataka Tourism has devised and implemented a four-pronged strategy for the development of tourism in Karnataka. The department has focused its efforts on four separate areas-policy and implementation, infrastructure development, marketing and preservation and sustenance. Progress made on these four fronts will achieve the ambitious development and revenue goals which have been set by the Department of Tourism. The single biggest achievement of Karnataka Tourism has been the creation of a cohesive, comprehensive, and seamless tourism strategy that overlooks no detail.

- 30 District Tourism Promotion Councils have been created for all the 30 districts which are headed by Deputy Commissioners of the concerned district. This committee will be functioning by focusing on development of identified areas in their region and will also monitoring the progress.
- A State Level Monitoring Committee is also been created for monitoring the overall developments and progress of Centrally Financial Assistance projects.
- Master plans for all the districts are under preparation.
- The detail project reports for infrastructure plans both for State and Central will be prepared through outstanding Architects / Consultants who are emplaned in the Department.
- Two World Heritage Centers are being developed under mega project, namely, Hampi and Pattadakal. The integrated development of the Hampi site has already in progress with an estimated cost of Rs.81.77 Crores. The detail project report for the development of circuits – Badami-Pattadakal- Aihole has been submitted to Central Government and the estimated cost of this mega project is Rs.143.00 Crores.
- Integrated development of Almatti Dam has been taken by providing tourist infrastructure near this dam with an estimated cost of Rs.16.00 crores.
- The existing KSTDC Hotels at various places have been upgraded and additional rooms are also been added.



- In addition to the existing Eco-tourism units, initiatives have been taken for the development of some more such Eco-tourism centers, namely, Talakale near Jog, Vilaspur tank in Bidar district.
- A separate Budget has been provided for development of Last mile connectivity roads leading to monuments from the main road. The works are under progress.
- It is proposed to add Night Safari Project at Bannerhatta National Park with a budget estimate of Rs.178.00 crores. Shortly the tender will be called for the purpose.
- Steps have been taken to construct an International Convention Center near Devanahalli with an estimated cost of Rs.1100.00 crores.
- It is proposed to construct a Theme Park about Hampi near Kamalapur with an estimated cost of Rs.50.00 crores.
- Estimates are being prepared to construct Wayside facilities at a distance of every 50 KMs on the National Highways and important roads leading to tourism destinations.
- Steps have been taken to erect singage"s and Hoardings across the state in the important locations.
- A systematic approach has been followed to increase the tourism man power specifically in Hospitality section by imparting tourism training through Institute of Hotel Management.
- Food craft Institutes at Hassan and Mangalore have been started to give training to the local young generation in various wings of catering services.
- Under the Rural Tourism Project, Anegundi, Kokkre Bellur and Attivari Bird Sanctuary have been developed. Schemes prepared to develop Rural Tourism at other places also to showcase rural life, art and culture and heritage.
- Estimates are being prepared for development of Hill stations such as Kemmanagundi and Nandi hills.
- A separate Budget Head has been provided for the development of Schedule caste Special Plan and Tribal Special Plan, under which tourists taxis have been provided to the eligible SC & ST candidates.
- Under the New Initiatives, the Department has proposed to develop Heli tourism, Cruise Tourism, Wellness tourism, Adventure tourism and Caravan Tourism.

## CHAPTER

# 5

## PROJECT BRIEF

### 5.1 PROJECT CONCEPT

Using off-site workdays to motivate staff and improve their productivity is gaining popularity in the corporate world. Companies are also realizing the benefits to their business when regional dealer conferences, incentive trips and focused business meetings are organized in exotic locations which include sightseeing, recreation and shopping. The Meetings, Incentives, Conventions and Exhibitions (MICE) segment of tourism caters to such corporate programmes which are tailor-made to suit the client's requirements. MICE is used to refer to a particular type of tourism in which large groups, usually planned well in advance, are brought together for some particular purpose.

Karnataka is evolving as a unique Conference Destination as it offers cultural and heritage sites, the exotic and mystical, excellent facilities of beach and adventure holidays which can be combined as pre and post conference tours. The sudden growth in sectors like IT, Tourism, Education within the state has also increased the demand for hospitality and MICE facilities. The state has a number of potential locations which can be developed as one of the finest Incentive destinations in the state owing to the diverse culture and geography.

Considering the emerging urban centres of the state such as Mysore, Mangalore, Hubli which are being considered as next IT hubs of the state, the demand for MICE facilities near these urban centers is going to shoot up tremendously within few years.



### 5.2 CASE STUDIES ON SIMILAR CONCEPTS

#### 5.2.1 Case Study – Hyderabad International Convention Centre

Hyderabad International Convention Centre (HICC) is managed by Accor Hospitality and jointly owned by Emaar Properties PJSC Dubai and Andhra Pradesh Industrial Infrastructure Corporation Ltd. The Convention Centre is ideally located in Hyderabad's IT hub and business district offering state of the art exhibition, meeting and convention services.

HICC is the first purpose-built and state-of-the-art convention facility, the first of its kind in South Asia. It has an internal hall measuring 6,480 square meters, which can be partitioned into six smaller halls. The pre-function foyer area itself exceeds 6400 sqm.



Hyderabad International Convention Center with 5,000 seating capacity is India's largest and the most technologically advanced convention facility. It is an integrated 291,000 square foot (27,000 m<sup>2</sup>) facility with a 287-room-capacity business hotel, Novotel Hyderabad, covering 15 acres (61,000 m<sup>2</sup>). This air-conditioned center can be configured to increase seating capacity to about 6,500.

### 5.2.2 Case Study – Melbourne Convention Centre

#### Key Parameters:

1. Location: Melbourne, Victoria, Australia (Yarra River watershed)
2. Cost: \$445 million
3. Completed: April 2009
4. Program: Main foyer, banquet room, meeting rooms, storage, and kitchen

The Project of developing Convention Centre was announced during 2004 by the trust and incorporated a commitment of \$370 million from the State Government and \$43 million from the City of Melbourne. The Project was delivered as a Partnership Victoria project and includes a significant private sector



investment in complementary facilities in the precinct adjacent to the existing Exhibition Centre and the new Convention Centre. The Melbourne Convention Centre officially opened in June 2009.

The MCEC boasts 52 meeting rooms of various sizes, a grand banquet room, a spectacular entry level foyer, and a 5550+ state-of-the-art plenary that can be divided into three self-contained, acoustically separate theatres.

The MCEC is owned by the Victorian State Government and managed by the Melbourne Convention and Exhibition Trust (MCET). The comprehensive operating statement of the Trust for the year ended 30 June 2011 reports income from transactions of \$74.4 million, which is an increase of approximately \$17.1 million from the previous year.

### 5.2.3 Case Study – Dr. TMA Pai International Conventional Centre, Mangalore

Dr TMA Pai International Convention Centre, in the heart of Mangalore, primarily caters to the needs of the institutions in the coastal city of Dakshin Kannada. It has a total built-up area of 180,000



sq.ft. The convention centre is centrally air-conditioned and can accommodate about 3000 persons. The convention centre has two domes with a height of 32.4 and 29.9 metres each from the basement. The common lobby for the entrance with the elevators and escalator are the added attraction.

#### Facilities:

- 3 Conference Halls:
  - Hall 1 – Capacity 250
  - Hall 2 – Capacity 350
  - Hall 3 – Capacity 250
- Auditorium/Function Hall:
  - Stage – 8m X 9m (International Standard)
  - 1760 Capacity
- Exhibition Hall:
  - Area – 15,000 sqft
  - Capacity – 850 Persons
- Dining Hall and kitchen:
  - Capacity - 800 people with sit-down dining facilities for 300 guests.
- Parking:
  - Basement-220 cars
  - Open-130 cars

- Other facilities:
  - Stand-by generator supply (625 KVA and 500 KVA)
  - Central Air-conditioning to each of the facility (3 Chiller Plants - 165 Tons each)
  - Landscaping and water bodies of international standard
  - Water and power supply
  - Lift and escalators
  - Emergency exits for easy evacuation

**Tariff Structure:**

- Auditorium (Includes four guest rooms): Rs. 85,000
- Dining hall: Rs. 60,000
- Kitchen: Rs. 10,000
- Exhibition hall: Rs. 65,000
- Conference Hall No. 1: Rs. 40,000
- Conference Hall No. 2: Rs. 45,000
- Conference Hall No. 3: Rs. 40,000
- Air-conditioning and lighting: Fixed charges shall be levied on hourly basis based on the areas hired.
- Generator: to be charged extra, if used
- Service Tax: 10.3%, Luxury Tax: 10% (wherever applicable)
- Other charges:
  - Electricity: Rs. 13/- per unit
  - Generator: Rs. 5/- per unit in addition to diesel charge at market rate
  - Air-conditioning: Rs. 13/- per unit
  - House Keeping/ Security: Rs. 8,000/-
  - Linen: Rs.100/- per room per day (6 AM -10 PM)
  - Additional rest room other than four allotted with the auditorium: Rs. 750/- per room per day
  - Miscellaneous arrangements like pots, chairs, stage, podium etc: Rs. 2000/- per day
  - LCD projector: Rs. 500/- per day
  - LCD screen: Rs. 200/- per day
  - Water charge: Rs. 500/- per day
  - Hard stand (outside) for cooking: Rs. 10,000/- per day in addition to kitchen



### 5.3 IDENTIFIED PROJECT LOCATIONS

To implement the project concept, two potential locations have been identified in consultation with the Department of Tourism, Government of Karnataka. A map demonstrating geographical positioning of these identified locations within the state is provided as Annexure-A.

<p><b>Pilikula (Mangalore)</b></p> 	<p><b>Location and Connectivity:</b></p> <ul style="list-style-type: none"> <li>• District – Dakshina Kannada</li> <li>• Located at Mudushedde, 10 Kms from Mangalore city in the North-East direction.</li> </ul> <p><b>Tourist Attraction:</b> Pilikula Nisarga Dhama (Pilikula) is a major eco-education and tourism development project promoted by the District Administration of Dakshina Kannada in the beautiful city of Mangalore in Karnataka State, India.</p> <p>An integrated theme park with a wide variety of features, Pilikula has many attractions of cultural, educational and scientific interest. The park is spread over an area of 370 acres comprising of a tropical forest and the enchanting Pilikula Lake. The project presently includes a Biological Park, Arboretum, a Science Centre, a Lake Park with Boating Centre, a Water Amusement Park and a Golf Course. Other features which are currently being developed include a Heritage Village, an Ayurveda Health Therapy Centre and Tourist Cottages.</p> <p><b>Nearby Tourist Destinations:</b> Mangalore, Thannirabhavi Beach, Ullal Beach, Someshwara Beach, Panambur Beach, Suratkal Beach, Bekal Fort.</p>
<p><b>Mysore</b></p> 	<p><b>Location and Connectivity:</b></p> <ul style="list-style-type: none"> <li>• District – Mysore</li> <li>• Mysore Railway Station has three railway lines that connect it to the cities of Bangalore, Hassan and Chamarajanagar.</li> <li>• Mysore is connected by NH-212 to the state border town of Gundlupet which then forks into the states of Kerala and Tamil Nadu. State Highway - 17E connects Bangalore with Mysore via Srirangapatna.</li> <li>• The airport which recently started has good connectivity with Bangalore and Chennai.</li> </ul> <p><b>Tourist Attraction:</b> Mysore is known as the cultural capital of the State due to its rich heritage and culturally important places. It is the most sorted tourist destination at international, national as well as domestic level. Mysore is a tourism hot spot within the state of Karnataka and also acts as a base for other tourist places in the vicinity of the city. The city receives the maximum number of tourists during the period of the Dasara festival when festivities take place for a period of 10 days.</p> <p>Mysore is also proving to be the next IT hub in Karnataka after the phenomenal success of Bangalore. Currently, all of the IT related industries are concentrated around the Mysore city.</p> <p><b>Nearby Tourist Destinations:</b> Krishnarajasagar Dam, Brindavan Gardens, Srirangapatna, Somanathapura, Talakad, Himavad Gopalaswamy Betta, the</p>



hill stations of Ooty, Sultan Battery & Madikeri, Bandipur National Park, Nagarhole National Park, Wildlife Sanctuaries at B R Hills, the bird sanctuaries at Ranganathittu and Kokrebellur, Nanjanagud, Bylakuppe and the Waterfalls at Shivanasamudra.

## 5.4 PROJECT SITE DESCRIPTION – SITE 1: PILIKULA, MANGALORE

### 5.4.1 An Overview of Dakshina Kannada District

#### 5.4.1.1 Introduction

Dakshina Kannada is a coastal district in the state of Karnataka in India. It is bordered by Udupi District to the north, Chikmagalur district to the northeast, Hassan District to the east, Kodagu to the southeast, and Kasaragod District in Kerala to the south. The Arabian Sea bounds it on the west. Mangalore is the headquarters and major city of the district.

#### 5.4.1.2 Connectivity

The district has three national highways connecting to different parts of Karnataka state and India. NH-66 connects district with Udupi, Karwar, Mumbai, Goa and Kochi. NH-13 connects Shivamogga and Sholapur with the Dakshina Kannada. NH-48 connects district with Bengaluru, Hassan and Sakleshpura. The Konkan Railway connects Dakshina Kannada with Maharashtra, Goa, Gujarat, Delhi, Rajasthan and Kerala by train. The district is also connected by air through Mangalore International Airport at Bajpe. Dakshina Kannada district has a seaport at Panambur. It is one of the major sea ports on western coast of India.



#### 5.4.1.3 Demography

The district has a total population of over 20.83 lakhs and has a sex ratio of 1020 females per 1000 male is higher than the national averages of 933. The density of population in the district is 340 per sq. km, Mangalore Taluka has highest population with density of 1059 persons per sq.km.

The district is divided into five taluks - Mangalore, Bantwal, Puttur, Sullia, and Belthangady. Important towns in Dakshina Kannada include Mangalore, Bantwal, Vittal, Puttur, Sullia, Moodabidri, Kadaba, Surathkal, Mulki and Dharmasthala. The major rivers are Netravathi, Kumaradhara, Phalguni, Shambhavi, Nandini or Pavanje and Payaswini which all join Arabian sea.

#### 5.4.1.4 Economy

The district is the third largest contributor to the state economy (4.6%). Agriculture is a major occupation of the people of Dakshina Kannada district. The main crops of Dakshina Kannada district are Paddy, Coconut, Arecanut, Black Pepper and Cocoa. The district is called as Cradle of Indian banking having given birth to five major banks and is the most industrialized district in Karnataka. Service sector is booming with setting up of professional education institutes and information technology related services (IT & ITES). As the district is on the shore of Arabian Sea, fishing is one of the major occupations of many people. The major fishing places are Bunder (Old harbour), Panambur, Surathkal, Kotekar and Sasihitlu.

#### 5.4.1.5 Tourism Resource

“Dakshina Kannada” district has rich heritage and culture in form of temples, churches and mosques. It has some of the most beautiful beaches and ghats along the western part of the country. In spite of this, the tourism potential of the district remains largely unutilized. Currently the tourism activities are mostly related to heritage tourism activities. Some of the popular heritage destinations are Mangaladevi Temple, Kadri Manjunath Temple, St. Aloysius College Chapel, Jain temple at Moodabidire, Sultan Battery, Pilgrim centre and Beach Resort at Ullal and Karala Temples. The inflow of tourist throughout the year to these destinations has been increasing steadily. Every year there are number of visitors to Mangalore. The major tourist circuits include Mangalore and Udupi.

Sheltered by the soaring Western Ghats on the east and bordered by the blue waters of the Arabian Sea, Dakshina Kannada is blessed with abundant rainfall, fertile soil and lush vegetation. Pristine beaches, picturesque mountain ranges, temple towns and a rich culture make it a sought after tourist destination. Dakshina Kannada is well known for Yakshagana- a fabulous costumed dance drama form, Kambala- the sport of buffalo racing by farmers, Kori-katta (Cock Fight) and Bootha Kola.

#### 5.4.2 Site Details

The proposed project site is located in Moodushedde village close to Pilikula Nisargadhama in Mangalore. It is about 10 km from the Mangalore town and falls in the Mangalore City Corporation limits. Pilikula has many attractions of cultural, educational and scientific interest. The park is spread over an area of 370 acres comprising of a tropical forest and the enchanting Pilikula Lake. It presently includes a Biological Park, Arboretum, a Lake Park with Boating Centre, a Water Amusement Park and a Golf Course. Other features which are currently being developed include a Heritage Village, an Ayurveda Health Therapy Centre and Tourist Cottages.

Following are the site specific details:

<b>Extent of Land</b>	13.5 Acre
<b>Co-ordinates</b>	Latitude - 12°55'25.87"N Longitude - 74°53'54.46"E

<b>Survey Number</b>	80/C, 80/A
<b>Ownership of Site</b>	Department of Tourism, Government of Karnataka
<b>Present Site Condition</b>	There are 3 buildings of T. B. Sanatorium which is abandoned and not in use covering about 3-4 acres of the land. The remaining area is left vacant without any encroachments/encumbrances.
<b>Linkages and Connectivity</b>	The Project Site is located adjacent to the Science Centre which is under construction within Pilikula Nisargadhama and is 2 km from the existing Golf Course at Pilikula. The site is abutting the main road (15m ROW) which leads to the entrance of Pilikula Nisargadhama. The site is well connected to Mangalore town through NH-169.



**Figure 5.1: Location of the Site at Pilikula, Mangalore**

The satellite image showing the site structure & its surroundings, site map and the site pictures are presented as Annexure-B.

### 5.4.3 SWOT Analysis

#### Strengths

- Ideally suited place for pre/post convention tours
- Existing Golf Course would be added advantage for Convention facilities
- Pilikula Nisargadhama is already developed as famous picnic spot in Mangalore - suited to host events/exhibitions.

#### Weaknesses

- Site is at a distance of 10 km from Mangalore town.

#### Opportunities

- Investments in IT and Industries are gaining momentum in Mangalore - Convention facilities can boast the economic development in the region.

#### Threats

- Presence of other convention facilities within Mangalore town (eg. T A Pai Convention Centre having 1750 pax seating capacity)

## 5.5 PROJECT SITE DESCRIPTION – SITE 2: MYSORE

### 5.5.1 An Overview of Mysore District

#### 5.5.1.1 Introduction

Mysore District is located in the Southern part of the State at a distance of 146 kms from the Capital city of Bangalore. It is known as the cultural capital of Karnataka and is emerging as next IT hub in the state with the presence of Infosys and Wipro.

Mysore was ruled by the Wodeyars from the year 1399 till the independence of India in the year 1947. Hence, has a heritage value with various splendid palaces till this time. The district is a popular tourist destination, offering several attractions ranging from the royal splendour of Mysore city and its fabulous Dasara Festival to exquisite temples, pilgrimage centres and forest areas. The city is ranked first in terms of best tourist place in India and 4th best in World.



#### 5.5.1.2 Connectivity

Mysore district has good regional road, rail and air connectivity. The major regional road network includes the National Highway -212 from Kerala via Mysore which terminates at its junction with NH-209 near Kollegal, State Highway- 17E connecting Bangalore with Mysore via Srirangapatna, and it has many other State Highways connecting to various parts of Karnataka. The broad gauge railway line passes through Mysore which connects major urban centers of the State viz. Bangalore, Mysore, Hassan and Chamrajnagar. It is also well connected by major urban centers in the country. The airport is recently started in Mysore which has good connectivity with Bangalore and Chennai.

#### 5.5.1.3 Demography

Mysore district has a population of 29, 94, 744 (2011 census) which covers a total area of 192, 493 sq. km. The average density in the district is 437 persons/ sq.km with a literacy rate of 72.56% which is higher than the State average of 67% and higher than National average of 65%. The sex ratio in the district is 982 females for every 1000 males.

#### 5.5.1.4 Economy

Mysore district is considered as one of the prosperous district of the state based on the development and utilization of irrigation facilities, abundance of forest wealth and sericultural products. Industries in Mysore district are mainly concentrated around the cities of Mysore and

Nanjangud. Mysore is also proving to be the next IT hub in Karnataka after the phenomenal success of Bangalore. Currently, all of the IT related industries are concentrated around the Mysore city. The Software Technology Park (STP) in-housing about 42 industries are located in the district. Tourism is also one of the prominent economies of the district. The importance of Mysore as a tourist destination for its rich heritage, culture, art and handicrafts has been the major base of the growth of tourism in the district.

#### 5.5.1.5 Tourism Resource

Mysore, the city of palaces, is a popular travel destination in South India. Also called Mysooroo, the city was earlier the capital of the Wodeyar rulers. The Wodeyar rulers were great patrons of art and culture, which one can see in the rich heritage of the city. Besides its numerous palaces and royal buildings, Mysore city is also known for proximity to several other places of interest such as Srirangapatna, Krishna Raj Sagar dam and Sivasamudram falls in Mandya district. These places along with the sight seeing in Mysore form one prominent tourist circuit visited by the majority of the people. In addition to its numerous attractions, the Mysore city is also known for sandalwood products, Mysore silk sarees and rosewood handicrafts. The Dasara festival (Navaratri) held every year is famous far and wide and attracts people from all parts.

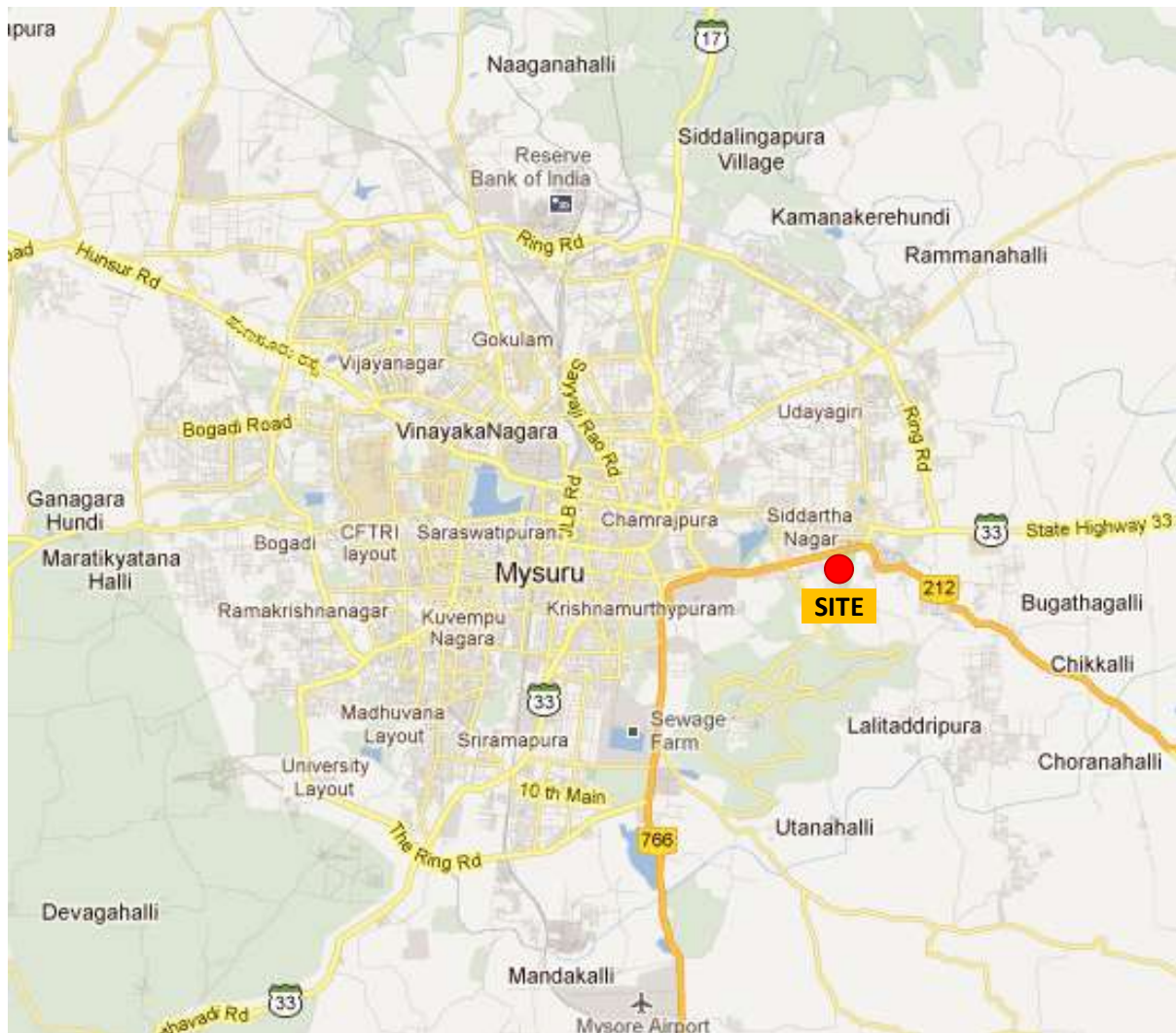
#### 5.5.2 Site Details

The proposed project site is located in close to Lalith Mahal Palace Hotel in the city of Mysore. It is about 4 km from Mysore City Bus Stand, Town hall and it falls in the Mysore City Corporation limits. The site is spread over 35 acres of land surrounded by Heli-pad on the south, Lalith Mahal Palace Hotel to the east, NH-766 towards North and a 20 m road towards west.

Following are the site specific details:

<b>Extent of Land</b>	35 Acre
<b>Co-ordinates</b>	Latitude - 12°17'59.00"N ; Longitude - 76°41'19.97"E
<b>Ownership of Site</b>	Mysore Urban Development Authority (MUDA)
<b>Present Site Condition</b>	The site is adjacent to Lalith Mahal Palace Hotel boundary and is bounded by boundary wall. At present the Site is lying vacant and free from any kind of encroachments.
<b>Linkages and Connectivity</b>	The site is well connected to Mysore town through NH-766. The site is abutting this National Highway and accessible from the same.





**Figure 5.2: Location of the Site at Mysore**

The satellite image showing the site structure & its surroundings, site map and the site pictures are presented as Annexure-B.

### 5.5.3 SWOT Analysis

#### Strengths

- Located in close proximity to Mysore Palace, Chamundi Hills, Mysore Race Course & Golf Course
- Positioned within City limits (5 km radius) and is adjacent to Lalith Mahal Palace Hotel

#### Opportunities

- Investments in IT and Industries are gaining momentum in Mysore - Convention facilities can boast the economic development in the region.
- No major convention facility is existing in the city of Mysore.

#### Threats

- Existing convention facility at Infosys Campus in Mysore.

## CHAPTER

# 6

# MARKET ASSESSMENT

## 6.1 INDUSTRY OUTLOOK

Till the early nineties, North America and Europe had dominated the conventions and conference markets. The US still holds the top spot for the highest number of meetings as a single country destination. However, since 1999, the market has moved towards newer destinations in Asia and Oceania. Business across sectors started gaining ground and complementing this growth, a parallel industry started emerging that tilted towards knowledge enhancement, education, dialogues, discussions, etc., leading to more conferences, conventions and seminars, wherein renowned speakers, thought leaders and professionals started making inroads into the country analysing and deliberating on what the future holds especially in developing regions. India soon started playing host to international and national conferences, seminars and events that demanded quality infrastructure. The lone Pragati Maidan in New Delhi seemed to be a too mediocre in comparison to the demand. All this demand was rather sudden and the fire fighting to build state-of-the-art convention centres in India proved to be vital.

The establishment of the Hyderabad International Convention Centre (HICC) brought in the much needed international touch to the MICE segment in India. Apart from HICC, few hospitality brands built hotels keeping in view this swelling demand for quality MICE infrastructure and incorporated large convention facilities in their plans. Mumbai the commercial zone of India has been debating for years to set up a state-of-the-art convention facility but nothing major has moved yet from the discussion stage.

India is at an 'inflection point' as far as the conventions and conferences business is concerned. With the emergence of India as a key economic hotspot along with China, and the country's recent tourism boom (with an increase in inbound travel from several international destinations for leisure, business and medical tourism), convention tourism has enormous possibilities in the country. However, from what we were to what we are and what will be seems to reflect a rather positive picture. MICE in India is going places and large conferences and exhibitions have gone beyond the metros to Tier II and Tier III cities. The incentive market has shown an inclination towards the unconventional, the more exotic a place for mixing business with pleasure, the better. The fact however cannot be denied that for a country whose burgeoning outbound MICE sector is being wooed by countries across the world, India as a MICE destination is still undersold.

India has hosted 100 international conferences during 2010 and is at present, ranked at 31 position globally according to ICCA statistics. India has the potential to be one of the top 20 destinations in the World for hosting international conference, exhibitions and events. For this dedicated resources and innovative market campaigns are necessary to position India as an attractive MICE destination.

MICE is today becoming an important segment of the tourism industry. With the opening up of India's economy, MICE tourism is likely to grow further in the future. Our country therefore needs more Convention and Exhibition Centers to meet the requirement of this lucrative segment of the tourism.

## 6.2 OPPORTUNITIES & DEMAND ASSESSMENT

One of the most important and fastest growing segments in the world segment of the Global Tourism Industry is Convention Tourism, also known as MICE – Meetings, Incentives, Conventions and Exhibitions. As per the International Congress & Convention Association (ICCA) the size of the International Convention Industry is estimated to be US \$ 280 billion. The share of India in this is only US \$ 4.8 billion.

The Indian Convention Industry is currently at a nascent stage, contributing only a small proportion of the world conventions business. In terms of number of meetings, India has a share of 1% and in terms of delegate arrivals/ participation, 0.7% of the world figures. The entire tourism sector contributes to approximately 2.2% to the GDP and convention tourism business in turn contributes 5-7% of the tourism revenues. Although this figure of 5-7% is at par with the other convention destinations, in volume terms, it is small given the potential of India.

Considering the growth of MICE Tourism across the World and the greater growth of Business related activities in India over last two decades, it would be appropriate to look for MICE complex in Karnataka. Karnataka is evolving as a unique Conference Destination as it offers cultural and heritage sites, the exotic and mystical, excellent facilities of beach and adventure holidays which can be combined as pre and post conference tours. The sudden growth in sectors like IT, Tourism, Education within the state has also increased the demand for hospitality and MICE facilities. The state has a number of potential locations which can be developed as one of the finest Incentive destinations in the state owing to the diverse culture and geography.

The state has already planned for an International Convention Centre in Bangalore near BIAL which can accommodate larger Business fraternity. However, for the emerging urban centres of the state such as Mysore, Mangalore, Hubli which are being considered as next IT hubs of the state would attract sufficient business travelers if a convention centre having customized facilities is planned. It is the right time to plan for the future business growth and to provide convention facilities in these emerging cities of Karnataka which would help in boosting the local economy as well as the state GDP. Convention Industry is a high value, high visibility product, with the following benefits for Karnataka:

- International Conferences have direct economic benefits for the hotels, restaurants, travel agents and professional conference organizers in terms of arrangements for accommodation, transport, food, sight-seeing, shopping, etc.
- By hosting International Conferences, the state would be creating employment opportunities not only for those in the hospitality industry but also for students and volunteers who are required for the various related coordination activities.
- Hosting a National or International Conference at a particular destination is a high impact opportunity for a the state to showcase and market the entire gamut of its soft power which includes various facets like, art and culture, literature, history, education, media, fashion and cuisines.
- Participants in an international Conference provide an environment for exploring the possibilities of Foreign Direct Investment (FDI), technology transfers and joint ventures.

## CHAPTER

# 7

# PROJECT FINANCIALS

## 7.1 CONCEPT AND METHODOLOGY

The purpose of the Financial Analysis is to determine the financial viability of the investment in the project considering the cost of developing the project and the expected revenue stream over a period of time. It also includes study of different scenarios from the developer's perspective and to assess the receivables for DoT from the developer while ensuring that the developer gets a reasonable return on his equity.

**Discounted Cash Flow (DCF) Analysis** is a method of valuing a project, company, or asset using the concepts of the time value of money. All future cash flows are estimated and discounted to give their present values (PVs) – the sum of all future cash flows, both incoming and outgoing, is the net present value (NPV), which is taken as the value or price of the cash flows in question. DCF analysis is the most widely accepted valuation method in the fields of investment finance, real estate development, and corporate financial management.

NPV of post tax discounted project cash flows is considered as basic indicator of financial feasibility of a project, while insuring a return equivalent to the weighted average cost of capital. The positive and negative NPV indicate "Go" or "No Go" for the project respectively.

NPV of post tax discounted equity cash flows is considered as indicator of surplus generated from project, while insuring a return in the range of 20-25% on equity to developer. Thus Post Tax NPV of equity cash flows reflects the amount which developer can pay towards land premium to DoT, while making a reasonable return on his equity.

As a part of financial analysis, firstly NPV of discounted project cash flows have been analyzed to gauge the initial viability of the project. If the project displays the positive NPV, then NPV of equity cash flows are calculated. The following section presents the assumptions and consideration for financial analysis.

## 7.2 PROJECT DESIGN AND PRODUCT MIX

On the basis of the strengths of the project locations, opportunity analysis as per the demand assessment and the objectives of DoT, the broad activity mix for the project has been worked out.

The product/ activity for the envisaged developments are derived based on following factors:

- Demand pattern for the various product components/activity types
- Product Mix of other successfully running similar facilities
- Area standards, guidelines and current industry practice for various activities

A broad activity mix for the envisaged development has been derived based on combination of above factors and presented in the following section:

<b>Proposed Product Mix – Site 1: Pilikula, Mangalore</b>		
<b>Convention Centre – 1500 Capacity</b>		
Auditorium	7,800	sqft
Conference Halls	6,000	sqft
Exhibition Hall	10,000	sqft
Reception Area, Foyer and Circulation	9,750	sqft
Dining Hall and Kitchen	8,837	sqft
Administration Area	1,000	sqft
Rest Rooms	659	sqft
<b>Hotel – 120 Rooms</b>		
Area under Rooms	54,000	sqft
Reception and Lobby	1,549	sqft
Restaurant and Kitchen	17,673	sqft
Administration Area	1,500	sqft
Circulation Area	22,417	sqft
<b>Parking Area</b>		
Basement Parking	54,402	sqft
On-Ground Parking	21,725	sqft
<b>Open and Landscaped Area</b>	1,26,939	sqft
<b>Total Site Area Required (4.2 Acre)</b>	<b>1,81,341</b>	<b>sqft</b>

Based on the above activity mix, it is derived that an approximate area of 4.2 Acre would be required at Pilikula, Mangalore Site for development of the envisaged facilities

<b>Proposed Product Mix – Site 2: Mysore</b>		
<b>Convention Centre – 2400 Capacity</b>		
Auditorium	13,000	sqft
Conference Halls	13,500	sqft
Exhibition Hall	10,000	sqft

Reception Area, Foyer and Circulation	15,600	sqft
Dining Hall and Kitchen	14,728	sqft
Administration Area	1,000	sqft
Rest Rooms	1,098	sqft
<b>Hotel – 150 Rooms</b>		
Area under Rooms	67,500	sqft
Reception and Lobby	1,937	sqft
Restaurant and Kitchen	22,092	sqft
Administration Area	1,500	sqft
Circulation Area	27,909	sqft
<b>Parking Area</b>		
Basement Parking	74,775	sqft
On-Ground Parking	27,445	sqft
<b>Open and Landscaped Area</b>	<b>1,74,475</b>	<b>sqft</b>
<b>Total Site Area Required (5.7 Acre)</b>	<b>2,49,250</b>	<b>sqft</b>

Based on the above activity mix, it is derived that an approximate area of 5.7 Acre would be required at Mysore Site for development of the envisaged facilities

## 7.3 ASSUMPTIONS FOR FINANCIAL ANALYSIS

### 7.3.1 Construction Period

It is assumed that development of project will take 3 years.

### 7.3.2 Period of Analysis

Period of Analysis has been taken as 30 Years.

### 7.3.3 Capital Cost Assumptions

While calculating the project cost, the assumptions have been based on market feedback, as well as Feedback's own experience of advisory and project management consultancy.



Following are the cost considerations for the project:

<b>Cost of Construction</b>		
Site Development	200	Rs/sqft
Civil Work (Convention Centre and Hotel)	1,200	Rs/sqft
Civil Work (Basement Parking)	600	Rs/sqft
Cost of Furnishing (Convention Centre)	1,800	Rs/sqft
Cost of Furnishing (Hotel)	2,000	Rs/sqft
Cost of Machinery and Equipments	100	Rs Lakhs

#### 7.3.4 Pre-Operative Charges and Contingencies

Pre-operative charges include Design consultancy fees, Project management costs, Administrative costs, Charges payable to civic authorities, Publicity and advertisement expenses, Marketing expenses, Miscellaneous Expenses, Interest During Construction and Insurance During Construction. Following are assumptions taken into account while calculating the pre operative expenses:

Project Development Cost	@1% of Construction cost
Debt Syndication	@0.5% of Debt
Equity Syndication	@0.5% of Equity
Launch marketing	@1% of Construction cost
Other pre-operational expenses	@1% of Construction cost
Insurance during Construction	@0.5% of the landed cost for each of the Construction years
Interest during construction	@14% of per Annum
Consultancy	@5.5% of the Landed Cost

#### 7.3.5 Operating & Maintenance Cost Assumptions

Following are the Operating and Maintenance Cost considerations for the project:

<b>Marketing Expenses</b>	
Marketing & Brokerage	@1% of the total revenue
<b>O&amp;M Expenses</b>	
Operating Expenses for Convention Centre	20% of the revenue from Convention Centre
Operating Expenses for Hotel	40% of the revenue from Hotel

### 7.3.6 Revenue and Utilization Assumptions

Following are the revenue sources identified and utilization assumptions for the revenue generation for the developer of the project:

#### Revenue Assumptions – Site 1: Pilikula, Mangalore

Revenue from Convention Centre	
Auditorium	30,000 Rs/Event
Occupancy in 1 <sup>st</sup> Year of Operation	5%
Annual Increase in Occupancy	5%
Conference Hall	30,000 Rs/Event/Hall
Occupancy in 1 <sup>st</sup> Year of Operation	20%
Annual Increase in Occupancy	5%
Exhibition Hall	37,500 Rs/Event
Occupancy in 1 <sup>st</sup> Year of Operation	5%
Annual Increase in Occupancy	5%
Dining Hall	21,000 Rs/Event
Occupancy in 1 <sup>st</sup> Year of Operation	20%
Annual Increase in Occupancy	5%
Revenue from Hotel	
Rack Rent	3,500 Rs/Room/Day
Annual increase in Rack Rent	5%
Revenue from F&B	60% of the Revenue from Rack Rent

Realization of Revenue	Operational Year			
	1	2	3	4 onwards
Occupancy of Hotel Rooms	40%	50%	60%	75%

#### Revenue Assumptions – Site 2: Pilikula, Mysore

Revenue from Convention Centre	
Auditorium	50,000 Rs/Event
Occupancy in 1 <sup>st</sup> Year of Operation	2.5%

Annual Increase in Occupancy	5%
Conference Hall	45,000 Rs/Event/Hall
Occupancy in 1 <sup>st</sup> Year of Operation	20%
Annual Increase in Occupancy	5%
Exhibition Hall	37,500 Rs/Event
Occupancy in 1 <sup>st</sup> Year of Operation	5%
Annual Increase in Occupancy	5%
Dining Hall	35,000 Rs/Event
Occupancy in 1 <sup>st</sup> Year of Operation	20%
Annual Increase in Occupancy	5%
<b>Revenue from Hotel</b>	
Rack Rent	4,500 Rs/Room/Day
Annual increase in Rack Rent	5%
Revenue from F&B	60% of the Revenue from Rack Rent

Realization of Revenue	Operational Year			
	1	2	3	4 onwards
Occupancy of Hotel Rooms	40%	50%	60%	75%

### 7.3.7 Financing and Taxation Assumptions

- **Debt Equity Ratio:** Debt Equity Ratio is taken as 70:30 for the project.
- **Interest Rate:** The rate of interest for the analysis has been assumed as 14% per annum for term loan.
- **Debt Repayment Period:** 10 year debt repayment period has been considered for the proposed development, which starts in first year of operation.
- **Taxation:** The tax rates have been taken as 33.99%
- **Depreciation:** The depreciation on the project components of Buildings, Plant & Equipment and Fittings has been taken as per the Company's and Income Tax Act through Written Down Value (WDV) method.

## 7.4 SUMMARY OF FINANCIAL ANALYSIS RESULTS

### 7.4.1 Capital Cost

Project Site	Pilikula, Mangalore	Mysore
Construction Cost	5218.9 INR Lakh	6984.9 INR Lakh
Pre-operative Expenses	1604.5 INR Lakh	2147.4 INR Lakh
<b>Total Landed Cost of the Project at Each Location</b>	<b>6823.4 INR Lakh</b>	<b>9132.3 INR Lakh</b>

### 7.4.2 Financial Indicators

Project Site	Pilikula, Mangalore	Mysore
Post Tax Project IRR	17%	19%
Post Tax Equity NPV @20% discount rate	INR 98.1 Lakh	INR 1079.1 Lakh
Post Tax Equity IRR	21%	25%

Results of financial analysis show that Post-Tax Project IRR is coming out to be 17% and 19% for the site at Mangalore and Mysore respectively. Post Tax Equity IRR of the project is coming out to be 21% and 25% for the site at Mangalore and Mysore respectively, which is higher than the target of 20%, which is IRR that investors will most likely seek from such an investment.

Considering a discount rate of 20%, the NPV of equity cash flows, which symbolizes the surplus generated by the project, while insuring 20% returns on developer's equity, comes out to be INR 98.1 Lakh and 1079.1 Lakh for the site at Mangalore and Mysore respectively. This indicates that the envisaged projects at Mangalore and Mysore have potential to generate INR 98.1 Lakh and 1079.1 Lakh respectively in NPV terms, which is the indicative amount that DoT may receive from the private developer/s.

### 7.4.3 Scenario Analysis

The following section presents the Scenario Analysis which provides the variation in the above discussed financial indicators in accordance with the variation in landed cost of the project as well as revenue from the project.

#### Scenario Analysis - Site 1: Pilikula, Mangalore

##### Variation in Project IRR with respect to Landed Cost of Project and Revenue from the Project

Variation in Project IRR		Revenue Variation								
		-20%	-15%	-10%	-5%	0%	5%	10%	15%	20%
Cost Variation	-20%	16%	17%	18%	18%	19%	20%	21%	22%	23%
	-15%	15%	16%	17%	18%	18%	19%	20%	21%	22%
	-10%	15%	15%	16%	17%	18%	19%	19%	20%	21%

	<b>-5%</b>	14%	15%	16%	16%	17%	18%	19%	19%	20%
	<b>0%</b>	13%	14%	15%	16%	17%	17%	18%	19%	20%
	<b>5%</b>	13%	14%	15%	15%	16%	17%	17%	18%	19%
	<b>10%</b>	13%	13%	14%	15%	15%	16%	17%	18%	18%
	<b>15%</b>	12%	13%	14%	14%	15%	16%	16%	17%	18%
	<b>20%</b>	12%	12%	13%	14%	15%	15%	16%	17%	17%

### Variation in Equity NPV with respect to Landed Cost of Project and Revenue from the Project

Variation in Equity NPV		Revenue Variation								
		-20%	-15%	-10%	-5%	0%	5%	10%	15%	20%
Cost Variation	<b>-20%</b>	-107.0	98.2	310.1	519.7	727.0	939.7	1163.3	1394.6	1631.4
	<b>-15%</b>	-265.0	-65.1	146.8	364.5	577.4	790.1	1008.2	1237.6	1474.4
	<b>-10%</b>	-423.0	-223.9	-16.5	201.2	424.7	640.5	858.6	1082.1	1317.5
	<b>-5%</b>	-581.1	-381.9	-177.2	37.9	261.4	490.7	709.0	932.5	1161.4
	<b>0%</b>	-741.4	-539.9	-335.2	-124.8	98.1	327.4	559.4	782.9	1011.8
	<b>5%</b>	-909.2	-697.9	-493.2	-282.8	-65.2	164.1	399.2	633.3	862.2
	<b>10%</b>	-1076.9	-861.9	-651.2	-440.8	-224.9	0.8	235.9	476.9	712.6
	<b>15%</b>	-1244.7	-1029.6	-809.2	-598.9	-382.9	-161.2	72.6	313.6	560.4
	<b>20%</b>	-1412.4	-1197.4	-976.3	-756.9	-540.9	-319.3	-90.7	150.3	397.1

Figures are in INR Lakhs

### Variation in Equity IRR with respect to Landed Cost of Project and Revenue from the Project

Variation in Equity IRR		Revenue Variation								
		-20%	-15%	-10%	-5%	0%	5%	10%	15%	20%
Cost Variation	<b>-20%</b>	19%	21%	23%	24%	26%	28%	30%	32%	33%
	<b>-15%</b>	18%	19%	21%	23%	25%	26%	28%	30%	31%
	<b>-10%</b>	17%	18%	20%	21%	23%	25%	26%	28%	30%
	<b>-5%</b>	16%	17%	19%	20%	22%	23%	25%	27%	28%
	<b>0%</b>	15%	16%	18%	19%	21%	22%	24%	25%	27%
	<b>5%</b>	14%	16%	17%	18%	20%	21%	23%	24%	25%
	<b>10%</b>	13%	15%	16%	17%	19%	20%	21%	23%	24%
	<b>15%</b>	13%	14%	15%	17%	18%	19%	20%	22%	23%
	<b>20%</b>	12%	13%	15%	16%	17%	18%	19%	21%	22%

**Scenario Analysis - Site 2: Mysore**

**Variation in Project IRR with respect to Landed Cost of Project and Revenue from the Project**

Variation in Project IRR		Revenue Variation								
		-20%	-15%	-10%	-5%	0%	5%	10%	15%	20%
Cost Variation	-20%	18%	19%	20%	21%	22%	23%	24%	24%	25%
	-15%	17%	18%	19%	20%	21%	22%	23%	24%	24%
	-10%	17%	18%	18%	19%	20%	21%	22%	23%	24%
	-5%	16%	17%	18%	19%	20%	20%	21%	22%	23%
	0%	15%	16%	17%	18%	19%	20%	20%	21%	22%
	5%	15%	16%	17%	17%	18%	19%	20%	21%	21%
	10%	14%	15%	16%	17%	18%	19%	19%	20%	21%
	15%	14%	15%	16%	16%	17%	18%	19%	19%	20%
	20%	14%	14%	15%	16%	17%	17%	18%	19%	20%

**Variation in Equity NPV with respect to Landed Cost of Project and Revenue from the Project**

Variation in Equity NPV		Revenue Variation								
		-20%	-15%	-10%	-5%	0%	5%	10%	15%	20%
Cost Variation	-20%	585.7	896.3	1215.7	1551.4	1899.7	2257.0	2600.9	2949.4	3306.3
	-15%	369.9	696.0	1015.3	1343.3	1689.6	2046.9	2413.2	2764.6	3121.5
	-10%	151.3	486.2	815.0	1143.0	1479.7	1836.8	2203.1	2578.3	2936.7
	-5%	-67.3	267.6	611.8	942.7	1279.4	1626.7	1993.0	2368.2	2751.8
	0%	-281.2	49.0	393.2	742.4	1079.1	1424.4	1782.8	2158.1	2542.3
	5%	-492.8	-169.1	174.7	528.2	878.7	1224.1	1578.1	1948.0	2332.2
	10%	-704.3	-380.6	-43.9	309.7	672.6	1023.8	1377.8	1740.4	2122.1
	15%	-915.8	-592.2	-259.5	91.1	454.0	823.5	1177.5	1540.1	1912.0
	20%	-1127.4	-803.7	-471.0	-127.5	235.4	607.7	977.1	1339.8	1711.2

Figures are in INR Lakhs

**Variation in Equity IRR with respect to Landed Cost of Project and Revenue from the Project**

Variation in Equity IRR		Revenue Variation								
		-20%	-15%	-10%	-5%	0%	5%	10%	15%	20%
Cost Variation	-20%	24%	26%	28%	30%	32%	34%	36%	38%	40%
	-15%	22%	24%	26%	28%	30%	32%	34%	36%	38%
	-10%	21%	23%	25%	26%	28%	30%	32%	34%	36%



	-5%	20%	21%	23%	25%	27%	28%	30%	32%	34%
	0%	19%	20%	22%	24%	25%	27%	29%	31%	32%
	5%	18%	19%	21%	23%	24%	26%	27%	29%	31%
	10%	17%	18%	20%	21%	23%	25%	26%	28%	30%
	15%	16%	17%	19%	20%	22%	24%	25%	27%	28%
	20%	15%	17%	18%	19%	21%	23%	24%	26%	27%

#### 7.4.4 Value for Money Analysis

Value for Money analysis is done by comparing the financial outputs of two Models as mentioned below:

- **PPP Model:** When the project is being financed, owned and implemented by Private Sector Player
- **PSC Model:** When the project is being financed, owned and implemented by Government.

Public Sector Comparator (PSC) is used to make decisions by testing whether a private investment proposal offers value for money in comparison with the most efficient form of public procurement. The PSC estimates the hypothetical risk-adjusted cost if a project were to be financed, owned and implemented by government.

The assumptions considered for developing the PPP model and the summary of the respective financial indicators have been presented in the previous section. For developing the base PSC model, the following assumptions were made:

##### Assumptions: Base PSC Model

Particulars	Assumptions	Comments
Cost of Capital	12%	Estimated cost of market borrowings for the Government of Karnataka
Tax rate	20%	Although no tax is payable by government authorities, but for the sake of comparison with PPP model and considering competitive neutrality, the tax rate has been assumed as 20%,

Other assumptions remain identical to the PPP reference model in order to meaningfully compare the PPP and Public sector models.

Optimum allocation of risks associated with the project is perhaps the single most important step towards developing the contractual framework for any PPP project. The principle of allocating risk to the party best placed to handle the risk is presented below.

### Quantitative Risk Matrix

Risks		Financial Impact	Risk Allocation (%) as per PPP Model	
			Concessionaire	Authority
Construction Phase	Construction Cost Overrun	Cost overrun of 15%	100%	0%
	Construction Time Overrun	Time overrun of 50% of the Construction Period	100%	0%
Operation Phase	Revenue Shortfall	Decrease in revenue by 15%	100%	0%
	Opex risk	Increase in O&M Cost by 15%	100%	0%

#### 7.4.4.1 NPV of all Risks to be added onto the base PSC Model

Based on the quantitative risk analysis described previously, NPV of all risks has been calculated and has been added to the base PSC model developed for the project. This is to facilitate comparison between the PPP reference model and the PSC model so as to decide upon the appropriate development model for the project.

#### **NPV of Risks to be added onto base PSC model – Site 1: Pilikula, Mangalore**

Based on the above framework, NPV of cash flows to the public sector is calculated as INR 4301.5 Lakh. NPV of risks to be added back is as follows:

Risks		Financial Impact	NPV at Risk (INR Lakhs)	NPV of Risk to be added back (INR Lakhs)
Construction Phase	Construction Cost Overrun	Cost overrun of 15%	3661.5	-640.0
	Construction Time Overrun	Time overrun of 50% of the Construction Period	2583.0	-1718.5
Operation Phase	Revenue Shortfall	Decrease in revenue by 15%	2632.5	-1669.0
	Opex risk	Increase in O&M Cost by 15%	3477.2	-824.3
<b>NPV of all transferred Risks to be added back to base PSC model</b>				<b>-4851.8</b>

Therefore INR (-) 4851.8 Lakh is the NPV to be added back to the base PSC model. The risk adjusted PSC reference therefore comes out to be INR (-) 550.3 Lakh, i.e., the net cost to the government for implementing the project through DoT is INR 550.3 Lakh.

### NPV of Risks to be added onto base PSC model – Site 2: Mysore

Based on the above framework, NPV of cash flows to the public sector is calculated as INR 8283.1 Lakh. NPV of risks to be added back is as follows:

Risks		Financial Impact	NPV at Risk (INR Lakhs)	NPV of Risk to be added back (INR Lakhs)
Construction Phase	Construction Cost Overrun	Cost overrun of 15%	7413.3	-869.8
	Construction Time Overrun	Time overrun of 50% of the Construction Period	5489.4	-2793.7
Operation Phase	Revenue Shortfall	Decrease in revenue by 15%	4471.0	-3812.1
	Opex risk	Increase in O&M Cost by 15%	6937.3	-1345.8
<b>NPV of all transferred Risks to be added back to base PSC model</b>				<b>-8821.4</b>

Therefore INR (-)8821.4 Lakh is the NPV to be added back to the base PSC model. The risk adjusted PSC reference therefore comes out to be INR (-) 538.3 Lakh, i.e., the net cost to the government for implementing the project through DoT is INR 538.3 Lakh.

#### 7.4.4.2 NPV of all retained Risks to be added onto the PPP Reference Model

Based on the above risk assessment framework, the NPV of risks to be added back to the PPP reference model is as follows:

### NPV of Risks to be added to PPP reference model – Site 1: Pilikula, Mangalore

Risks		Financial Impact	NPV at Risk (INR Lakhs)	NPV of Risk to be retained by DoT (INR Lakhs)
Construction Phase	Construction Cost Overrun	Cost overrun of 15%	3661.5	0.0
	Construction Time Overrun	Time overrun of 50% of the Construction Period	2583.0	0.0
Operation Phase	Revenue Shortfall	Decrease in revenue by 15%	2632.5	0.0
	Opex risk	Increase in O&M Cost by 15%	3477.2	0.0
<b>NPV of all retained Risks to be added back to base PPP Reference model</b>				<b>0.0</b>

**NPV of Risks to be added to PPP reference model – Site 2: Mysore**

Risks		Financial Impact	NPV at Risk (INR Lakhs)	NPV of Risk to be retained by DoT (INR Lakhs)
Construction Phase	Construction Cost Overrun	Cost overrun of 15%	7413.3	0.0
	Construction Time Overrun	Time overrun of 50% of the Construction Period	5489.4	0.0
Operation Phase	Revenue Shortfall	Decrease in revenue by 15%	4471.0	0.0
	Opex risk	Increase in O&M Cost by 15%	6937.3	0.0
<b>NPV of all retained Risks to be added back to base PPP Reference model</b>				<b>0.0</b>

**7.4.4.3 Risk-adjusted PPP Reference and Statement of Value for Money**

**Site 1: Pilikula Mangalore**

Indicator	INR Lakhs
NPV of cash flows to Government (PPP Reference)	98.1
NPV of retained risks to be added back to PPP reference	0.0
<b>Risk Adjusted PPP Reference (A)</b>	<b>98.1</b>
NPV of cash flows to Government (Base PSC Model)	4301.5
NPV of Transferred risks to be added back to base PSC model	(-) 4851.8
<b>Risk Adjusted PSC (B)</b>	<b>(-) 550.3</b>
<b>Value for Money (A-B)</b>	<b>648.4</b>

Therefore, based on the statement for value for money, it can be stated that implementing the project through PPP is more viable than the public sector option. The government stands to gain INR 648.4 Lakh in present value terms if it chooses the PPP option over the public sector alternative. This shows that the private sector is better equipped to manage the risks associated with the project.

**Site 2: Pilikula Mysore**

Indicator	INR Lakhs
NPV of cash flows to Government (PPP Reference)	1079.1
NPV of retained risks to be added back to PPP reference	0.0
<b>Risk Adjusted PPP Reference (A)</b>	<b>1079.1</b>
NPV of cash flows to Government (Base PSC Model)	8283.1
NPV of Transferred risks to be added back to base PSC model	(-) 8821.4
<b>Risk Adjusted PSC (B)</b>	<b>(-) 538.3</b>
<b>Value for Money (A-B)</b>	<b>1617.4</b>

Therefore, based on the statement for value for money, it can be stated that implementing the project through PPP is more viable than the public sector option. The government stands to gain INR 1617.4 Lakh in present value terms if it chooses the PPP option over the public sector alternative. This shows that the private sector is better equipped to manage the risks associated with the project.

## 7.5 CONCLUSION

Financial Analysis of the project shows that the with a concession period of 30 years, envisaged projects at Manglore and Mysore have potential to generate INR 98.1 Lakh and 1079.1 Lakh respectively, which indicates the present value of the likely receivables for the DoT from the projects.

## CHAPTER

# 8

# STATUTORY AND LEGAL FRAMEWORK

## 8.1 APPLICABLE LAWS & ACT AND LEGAL & REGULATORY FRAMEWORK

### 8.1.1 The Karnataka Town and Country Planning Act, 1961

Main objective of this Act is to provide for the regulation of planned growth of land use and development and for the making and execution of town planning schemes in the state of Karnataka.

This Act provides for various circumstances under which change of land use could be permitted. It also provides for making and execution of town planning schemes in the State of Karnataka.

- **Planning and Development**

The Planning Authority constituted under the Karnataka Town and country Planning Act, 1961(hereinafter referred to as the “Planning Authority”) formulates a Master Plan, regulates development and improvement of entire planning area and is empowered with making of town planning schemes.

- **Revenue and Taxation**

The Act provides for levy and collection of cess, surcharges. The Planning authority is entitled to recover fees in case permission of change in land use is sought for by the land owners.

- **Land Acquisition**

By virtue of Section 69 of the Act the Planning Authority may acquire any land designated in the Master Plan for any public purpose specified in the Act. Further section 70, provides that land needed for the purpose of a scheme of development shall be deemed to be needed for public purpose.

Section 71 confers power on the State Government to acquire land included in a town planning Scheme for public purpose.

### 8.1.2 The Karnataka Municipalities Act, 1964

Main objective of this Act is to consolidate and amends the law relating to the management of municipal affair in towns and cities other than the cities for which municipal corporation are established in the State of Karnataka.

- **Planning and Development**

The Municipal Council constituted under the Karnataka Municipalities Act, 1964 (hereinafter referred to as Municipal Council) carries out same functions as a Municipal Corporation in respect of Smaller Urban areas.



- **Revenue and Taxation**

Section 103 of the Act empowers the Municipal Council to impose tax and to levy cess.

- **Land Acquisition**

By virtue of Section 81 of the Act, the Municipal Council can acquire and hold property situated within or without the limits of municipal area. The property so vested with the municipal council may be utilized for any purpose or for achieving any of the obligations of the municipality. This provision thus enables the municipality to acquire and hold land for the implementation of important schemes.

Further under Section 72(1) of the Act, municipal council has competency to lease, sell or otherwise transfer the property belonging to it for the purpose of implementing any provision of the Act. Further the same section also empowers the municipal council to enter in to any kind of contracts which it considers necessary, to carry out any of its obligation under the Act. As such under this section, the municipal council can transfer interest in the land belonging to it in favour of any private sector for implementing any of the obligations of municipal council.

- **Power to undertake works and incur expenditure for improvements**

Municipal council may draw improvement scheme and expansion scheme for the areas within its jurisdiction and can undertake any works and incur any expenditure in respect thereof.

### 8.1.3 The Karnataka Municipal Corporations Act, 1976

The Act provides for creation of Municipal Authority in the State of Karnataka. It confers certain powers on Mayor and the deputy Mayor. It specifies the obligatory and specific functions of the corporations. It also provides for strengthening the administrative machinery of the corporations.

- **Planning and Development:**

The Municipal Corporation (Authority) is the 3rd Tier of Government for the City. The Authority has certain obligatory functions which includes water supply, drainage, MSW and property related functions. It shall also exercise certain discretionary functions.

- **Revenue and Taxation**

The Act empowers the authority to collect tax, levy cess, duties etc. and the authority also has the licensing powers.

- **Land Acquisition**

The Authority can acquire, any land designated in a Master Plan for specified purpose or for any public purpose either by agreement with the land owners or under the provisions of the Land Acquisition Act, 1894.

#### 8.1.4 The Karnataka Urban Development Authority Act, 1987

An Act provides for the establishment of urban development Authorities for the planned development of major and important urban areas in the state and the area adjacent.

- **Planning and Development**

Under Section 15 of the Act, the urban development authority constituted under the Karnataka Urban Development Authority, 1987 (hereinafter referred to as the Authority) has the power to undertake works and incur expenditure for development and in execution of that power; the Authority has the power to draw up detailed Schemes for the development of the urban area and also for the framing and execution of development schemes. The Authority may also take up any new or additional development schemes.

- **Revenue and Taxation**

Section 20 of the Act empowers the Authority to levy betterment tax.

- **Land Acquisition**

Section 35 of the Act empowers the Authority to enter into agreement with owner of any land or any interest therein, situated within the urban area for the purchase of such land. Further land may also be acquired under the provision of the Land Acquisition Act, 1894.

#### 8.1.5 The Environment (Protection) Act, 1986 (EPA)

According to EPA, "Environment" includes water, air and land and the inter-relationship which exists among and between water, air and land, and human beings, other living creatures, plants, micro-organism and property.

Section 3 of the EPA states, that Central Government shall have the power to take all such measures as it deems necessary or expedient for the purpose of protecting and improving the quality of the environment and preventing controlling and abating environmental pollution.

#### 8.1.6 National Environment Policy, 2004

The National Environment Policy (NEP, 2004) is a response to the national commitment to a clean environment, mandated in the Constitution in Articles 48A and 51 A (g), strengthened by judicial interpretation of Article 21. The Objective of NEP 2004 is:

- Conservation of Critical Environmental Resources
- Intra-generational Equity: Livelihood Security for the Poor

## 8.2 INITIATIVES BY CENTRAL GOVERNMENT

### 8.2.1 Scheme for Support to Public Private Partnerships in Infrastructure

The Government of India recognizes that there is significant deficit in the availability of physical infrastructure across different sectors and that this is hindering economic development. The development of infrastructure

requires large investments that cannot be undertaken out of public financing alone, and that in order to attract private capital as well as the techno-managerial efficiencies associated with it, the Government is committed to promoting Public Private Partnerships (PPPs) in infrastructure development. The Government of India recognizes that infrastructure projects may not always be financially viable because of long gestation periods and limited financial returns, and that financial viability of such projects can be improved through Government support. Therefore, the Government of India has decided to put into effect the following scheme for providing financial support to bridge the viability gap of infrastructure projects undertaken through Public Private Partnerships.

#### **Guidelines of the Scheme - Government Support (Viability Gap Funding)**

- 1) The total Viability Gap Funding under this scheme will not exceed 20% of the Total Project Cost; provided that the Government or statutory entity that owns the project may, if it so decides, provide additional grants out of its budget, but not exceeding a further 20% of the Total Project Cost.
- 2) Viability Gap Funding under this scheme will normally be in the form of a capital grant at the stage of project construction. Proposals for any other form of assistance may be considered by the Empowered Committee and sanctioned with the approval of Finance Minister on a case-by-case basis.
- 3) Viability Gap Funding up to Rs. 100 crore (Rs. One hundred crore) for each project may be sanctioned by the Empowered Institution subject to the budgetary ceilings indicated by the Finance Ministry. Proposals up to Rs. 200 crore (Rs. Two hundred crore) may be sanctioned by the Empowered Committee, and amounts exceeding Rs. 200 crore may be sanctioned by the Empowered Committee with the approval of Finance Minister.
- 4) Unless otherwise directed by the Ministry of Finance, the Empowered Institutions may approve project proposals with a cumulative capital outlay equivalent to ten times the budget provisions in the respective Annual Plan.

## **8.3 INITIATIVES BY STATE GOVERNMENT**

### **8.3.1 Karnataka Tourism Policy 2009-14**

#### **Classification of Tourism Zones for providing Incentives and Concessions**

For development purposes and for providing incentives and concessions for tourism projects Karnataka is classified into 4 tourism zones as follows:

- 1) Zone 1: Within Local Planning Area limits (BDA). This zone will be a low priority zone with few tax benefits.
- 2) Zone 2: B.M.R.D.A. limits. This zone will be a priority zone for attracting destination projects and act as a national hub for global events and activities. Extensive Government support, including large project-specific clearances and tax breaks, etc. will be available.
- 3) Zone 3: Mysore, Coorg, Hampi, Pattadakal – Badami – Aihole, Bijapur, Bidar, other heritage centres and the coast from Ullal to Karwar. This zone will be notified for priority development in an integrated manner with Integrated Tourism Development Master plans

(ITDM). Comprehensive tax breaks and benefits, including comprehensive clearances for large projects will be made available.

- 4) Zone 4: All other tourist destinations in Karnataka and wayside facilities in approved locations on National and State Highways. This zone will enjoy benefits and tax incentives as specified.

#### **Authorities for approving Tourism Projects**

- a) Tourism Projects with investment up to Rs.3 Crores (Rupees Three Crores): Department of Tourism, Government of Karnataka
- b) Tourism Projects with investment up to Rs.50 Crores (Rupees Fifty Crores): The state-level Single-Window Agency under the Chairmanship of Hon'ble Minister for Industries to Government of Karnataka and Karnataka Udyog Mitra shall be the nodal agency.
- c) Tourism Projects with investment of more than Rs. 50 Crores (Rupees Fifty Crores): The High Level Committee chaired by the Hon'ble Chief Minister of Karnataka. Karnataka Udyog Mitra shall be the nodal agency.

#### **Incentives and Concessions - Stamp duty / Registration charges**

- 1) 50% exemption on stamp duty for investment below Rs. 50 Crores.
- 2) 75% exemption on stamp duty for projects of Rs. 50 Crores and above.
- 3) 75% exemption on stamp duty for projects of over Rs. 10 Crores in Zone 3 and Zone 4.
- 4) Registration charges shall be allowed as provided in the Industrial Policy 2009 -14.

#### **Investment Subsidy**

The taluks in all the districts of the state have been classified in five categories for providing investment subsidies for Tourism Projects:

- Category A: 10% of the fixed assets subject to a maximum of Rs.10 lakhs
- Category B: 15% of the value of fixed assets subject to a maximum of Rs.15 lakhs
- Category C: 25% of the value of fixed assets subject to a maximum of Rs.25 lakhs
- Category D: 35% of the value of fixed assets subject to a maximum of Rs.35 lakhs
- Category E: 30% of the value of fixed assets subject to a maximum of Rs.30 lakhs

**CHAPTER  
9**

**INDICATIVE ENVIRONMENT & SOCIAL  
IMPACTS**

The impact of tourism on local communities can be both positive and negative, whether it comes to economic, social, or environmental effects. It depends to which extent tourism is developed in a particular region. Every region has its bearing capacity, that is to say the limit of the incoming influence that does not harm the host community. If we overcome that limit negative impacts of tourism will follow. Following section presents an indicative analysis of environmental and social impacts of the proposed project and measures to mitigate the same.

**9.1 ENVIRONMENTAL IMPACTS AND MITIGATION MEASURES**

Table below presents the general environmental impacts during construction and operation phases of the project and suggested mitigation measures:

Activity	Possible Environmental Impact	Suggested Mitigation Measure
<ul style="list-style-type: none"> <li><b>Pre-construction Stage</b> - Cutting of trees, clearing of shrubs</li> </ul>	May affect the micro-habitat and distress the natural fauna.	Cutting of trees shall be avoided to the extent possible and the natural vegetation present on the site shall be kept in mind while preparing the architectural concepts and the same shall be incorporated in architectural and landscape design for the project.
<ul style="list-style-type: none"> <li><b>Construction Stage</b> - Construction activities for development of the project</li> </ul>	Deterioration of air quality due to earth work excavation.	Frequent watering of construction sites to suppress dust emission and transport of earth in covered vehicles
	Disturbance to the natural drainage.	Natural course of the drainage should be restored during any construction activity.
	Soil contamination.	No spillage of oil/ diesel from the construction equipments.
	Water contamination.	Any construction activity should ensure that the water bodies are not contaminated.
	Disposal of excess earth.	The excess earth should be transported to designated place and

Activity	Possible Environmental Impact	Suggested Mitigation Measure
		shall be used for filling and covers.
	Disturbance to other services.	Any shifting of cable / utility lines should be attended with minimum period of disturbance.
	Safety of road users in the implementation area.	Provision of temporary crossings / bridges wherever necessary to facilitate normal movement.
	Noise pollution due to the use of machinery and movement of traffic.	Use of less noise generating equipment and avoiding activities during night.
<ul style="list-style-type: none"> <li>• <b>Operation &amp; Maintenance Stage</b> - O&amp;M activities of the machinery and equipments</li> </ul>	Noise pollution due to the use of machinery.	Use of less noise generating equipment and avoiding activities during night.
	Water contamination due to release of effluent waste.	Proper arrangements for effluent handling should be done and should not be dumped in any natural water bodies.

## 9.2 SOCIAL IMPACTS

The following section demonstrates that prima facie there are no major social impacts of the envisaged project on the communities abutting the site:

- Financial benefits and empowerment for local people - Generation of employment for local labour during construction stage as well as operation stage.
- No impairment to the safety of the community.
- No affect on the local culture and minimal influence on the character of the local community.
- No relocation and rehabilitation required.
- No harm to the tangible and intangible assets of the local community.

## 9.3 CONCLUSION

It is a great challenge to make a profitable business running tourism in an area without some negative effect to the local communities. It is possible for the tourism industry to cooperate with other industries and bring benefits to both the tourism organizations and local businesses. The first step to achieve it is to understand the needs and desires of both the host community and the tourists.



In order to decrease the negative effects on local societies and environment, the following points will have to be kept in mind while implementing the project:

- Local people to be involved as employees.
- To cooperate with the local businesses.
- To have a respectful attitude towards the local culture.
- To respect to the natural resources and to protect them.

## CHAPTER

# 10

## OPERATING FRAMEWORK

### 10.1 RISKS AND MITIGATION

Risks are inherent in all PPP projects as in any other infrastructure projects. They arise due to uncertain future outcomes which may have direct effect on the provision of services by the project, and/or the commercial viability of the project. The risk allocation to parties in contract and the management of risks are, therefore, at the heart of a PPP design. This is also an important element in establishing the business case for a PPP project.

The risk analysis, allocation and management involve the following activities:

- Identification of all possible risks and assessing their likelihood;
- Examining the likely effects of the risks in quantitative and qualitative terms;
- Consideration of suitable mitigation measures that may be available; and
- Allocation of risks to parties.

#### 10.1.1 Risks in PPP Projects

Typically the main categories of risks associated with PPP projects include the following:

- Construction and Completion Risks (delays in construction or cost overruns);
- Technology risk (new and untried technology, whose performance cannot be checked against existing references);
- Sponsor Risk (ability of private sponsor(s) to deliver the project);
- Environmental Risk (environmental constraints in construction and operation);
- Commercial Risk (lower demand and/or revenues than the ones projected);
- Operating Risk (inefficiency in operation leading to higher operating cost);
- Financial Risks (change in interest and currency exchange rates, and tax laws);
- Legal Risk (change in legal regime);
- Regulatory Risk (change in regulatory regimes);
- Political Risk (change in government policy or action that affects the business case of the project); and
- Force Majeure (risks due to unpredictable natural and man-made events such as earthquake, flood, civil war, etc.).

### 10.1.2 Identification of Possible Risks and Mitigation Measures

The following risk matrix demonstrates the risks associated with the Project and suitable mitigation measures. These consideration needs to be reflected in contract design and negotiation, and later on in designing a contract management process to address the risks during the construction and operation periods.

*Table 10.1: Risk Identification and Mitigation Measures*

Category of risk	Description and Likely Effect	Mitigation Measures
<b>Construction and Completion Risk</b>	Various factors can lead to delays in completion.	Effective clauses in the Concession Agreement and ensuring timely clearances and handing over of sites are some ways of mitigating this risk.
<b>Demand Risk</b>	These risks arise from the project if there is no established demand for the Project.	A Pre-feasibility has been carried out to assess the viability of the project based on the demand for the revenue generating components for the project. Thus partial risks are eliminated on the basis of the results & findings of the Pre-feasibility study.
<b>Commercial Risk/ Revenue Risk</b>	These risks arise from existing and future competition, effectiveness in utilizing space and management of facilities.	With the involvement of Private Sector in marketing, O&M and management and attractive incentives structures linked with Project success, risk would be transferred to the Developer.
<b>Financial Risks</b>	Changes in tax law or policy that have negative effect on the private party, its assets, or the project	Sensitivity analysis has been conducted in the Preliminary Feasibility Study to test the robustness of financial return. However if such effects are discriminatory, then Contractual provisions can be made for devising appropriate mechanism to provide compensation.
<b>Political Risk</b>	Change in law, expropriation, revocation of licenses, permits etc, civil disturbance, war, non-default termination of contract.	These can be mitigated by effective legal documentation and insurance.
<b>Force Majeure Natural Events</b>	Flood, earthquake, cyclone etc; closure of operation and negative effects on assets and project	Contractual provisions to withstand effect of such periods.

## 10.2 PROJECT STRUCTURING AND PAYMENT OPTIONS

This section presents an analysis of various options available for structuring the project on PPP and evaluation of pros and cons of the same.

### 10.2.1 Project Structuring Options

Based on structuring options having been successfully tested for PPP projects by various Government agencies in recent years, by Consultants own experience of assisting many Government bodies and based on further innovative iterations following broad options are being analyzed below:

- **Option 1 : Land on lease**

In this kind of PPP arrangements, the Government leases the land to the Concessionaire. The concessionaire makes investments and operates the envisaged facility for a pre-determined concession period after which the ownership reverts back to the public sector. In this model, operational and investment risks can be substantially transferred to the concessionaire. By retaining ultimate ownership, the government controls the policy and can allocate risks to parties that are best suited to assume or remove them. Typically concession periods range between 5 to 60 years based on the investments size of the project and to give the private player a reasonable amount of time to earn a decent rate of return on his investment.

- **Option 2 : Incorporated Joint Venture**

In recent times there have been some contextual isolated innovative cases of JV structure between government bodies and private sector players. The first category of JV is an incorporated JV in form of an SPV and this is more prevalent in concessioning of infrastructure projects in India. The advantage of Incorporated JV is better oversight and control over the lessee / concessionaire. The main disadvantage of the structure is that it is a pain-gain sharing arrangement and as has been evidenced in the case of Delhi Airport modernization, AAI has been forced to infuse higher equity.

- **Option 3 : Unincorporated Joint Venture**

The Unincorporated JV structure is a form of project structure in which the Leasing/Concessioning Authority does not hold any equity stake in the SPV but it does have the provision of sharing revenue from the SPV according to the JV agreement signed between the Leasing/Concessioning Authority and the SPV or the developer.

### 10.2.2 Payment Options

- **Upfront Payment only** – This is the option where the developer gives an upfront amount in consideration for the lease/concession/outright sale right and is the most prevalent mechanism for land development projects.
- **A combination of Upfront and Recurring** – This mechanism is used mainly in the lease type model of land development projects, where a recurring source of revenue is available to the developer. The developer gives an upfront amount to the leasing/concessioning authority and follows it with either Quarterly /Annually Recurring Payment. In such option, the Upfront amount is generally decided upfront by the leasing/ concessioning authority and the

recurring payment is the bid variable. There may be an inbuilt provision for annual escalation in the recurring payment to take care of the inflation or upside.

- **A combination of Upfront, Recurring and fixed Revenue Share** - This mechanism is also used mainly in the lease type model of land development projects, where a recurring source of revenue is available to the developer. The developer gives an upfront amount to the leasing/concessioning authority and follows it with either Quarterly / Annually Recurring Payment. In addition to this the developer also shares a fixed percentage of the revenue with the authority. This prototype model was used as early as five decades back for initial seven super discount malls of Wal Mart in USA. However, it has been seen in many cases that due to administrative and audit hassles involved, a very small percentage of revenue sharing is not worth the pain.
- **Annuity Payment** - This structure is frequently used for road projects. This is generally used in the projects, where government body is required to make annual payments to the concessionaire in exchange for creation of infrastructure and operations and management of the facility. The decision on accrual of user charges if any is with the authority, i.e., the income for the concessionaire can be either (user charges + annuity payments) or only annuity payments with user charges flowing to the Authority.
- **EPC and O&M Agreement** - This structure is used, where Government body is willing to do the required capital investment and also willing to keep the higher degree of control over construction and development quality. There are many possible payment modes like upfront, recurring or revenue share for such structure.
- **Grant** - Grant is provided in the PPP projects, which are not viable on their own. In the projects having grant structure may have grant amount as bid variable or it may be clubbed with other recurring receivable.

## 10.3 INDICATIVE PROJECT STRUCTURE

Based on the preliminary financial analysis carried out for proposed product mix, the probable and realistic receivables from the project are identified for the Department of Tourism (Government of Karnataka) and a suitable project structure is suggested to implement the project on PPP.

### 10.3.1 Proposed Operational Framework

<b>Concession Period</b>	30 years with RoFR to the Concessionaire at the end of Concession Period.
<b>Payment Options</b>	<p><u>Option 1:</u> Upfront Premium</p> <p><u>Option 2:</u> Annual Concession Fee with periodic enhancements</p> <p><u>Option 3:</u> A hybrid model of Option 1 &amp; 2</p>

<b>Role of Private Sector Partner (PSP)</b>	<ul style="list-style-type: none"><li>• Plan, design, finance, engineer, construct, develop and equip the envisaged project facilities.</li><li>• Operate , Maintain and Manage the Project facility throughout the Concession Period</li><li>• Marketing of the Project.</li><li>• Collection of Revenues from the project during the Concession Period.</li></ul>
<b>Role of State Government (Department of Tourism)</b>	<ul style="list-style-type: none"><li>• Providing encumbrance free project site for the pre-determined Concession Period.</li><li>• Facilitating various approvals / permits to run the smooth operations.</li><li>• Setting up of Institutional Framework for review &amp; monitoring</li></ul>



## CHAPTER

# 11

## WAY FORWARD

- **Capacity Building of PPP Cell Personnel**

Capacity Building Workshops will be conducted for officials who are identified as PPP Cell personnel by the department. These workshops will be conducted in order to enable these personnel in understanding the concept of PPP, model procedures and documents related to implementation of PPP projects, key issues related to PPP etc. Three training sessions will be organised as a part of capacity building. Various techniques of effective communication like audio-visual media in form of PowerPoint presentations, videos, notes, interaction dialogues, group activities quizzes etc will be used for these capacity building sessions.

- **Assistance in Global Inventors Meet 2012**

Assistance will be provided to the tourism department as the knowledge partner in Investor Meet for the sector. The assistance would aim showcasing tourism sector investment potential and bankable projects to attract Investors, the assistance may be in the form of preparing dockets of projects, information memorandums, brochures and presentations to provide information about major tourist destinations, Current & potential tourist inflow, Projects identified & investments required, Incentives & assistance given by the government, Investment procedure, etc.

- **Preparation of Model Documents for Selection of Consultants for the Tourism Projects**

The aforementioned PPP cell would be provided with the Model Tender documents. The model documents would give insights on the guidelines which are to be considered while selection of Consultants for tourism projects. Hence, these documents will assist PPP Cell personnel during the appointments and selection processes of Consultants for tourism projects.

The documents would include broad framework on the following:

- Detailed Scope of Work including deliverables and timelines for submission.
- Outlining the minimum eligibility criteria, which the bidders would necessarily have to meet before their bids are evaluated in detail.
- Description of Evaluation process elaborating the various evaluation parameters and their respective weightages.
- A draft Agreement which would spell out the following:
  - The Obligations and Scope of Work for the consultant
  - Progress Reporting Mechanism
  - Dispute Resolution Mechanisms

- Termination of Contracts by either of the parties
- Defining conditions and events leading up to a default in obligations
- Conditions construing Force Majeure
- Conditions leading up to a termination of Contract and invoking of the Performance Guarantee.

# CHAPTER 12 ANNEXURE

## 12.1 ANNEXURE – A : MAP SHOWING LOCATIONS OF THE PROJECT SITES

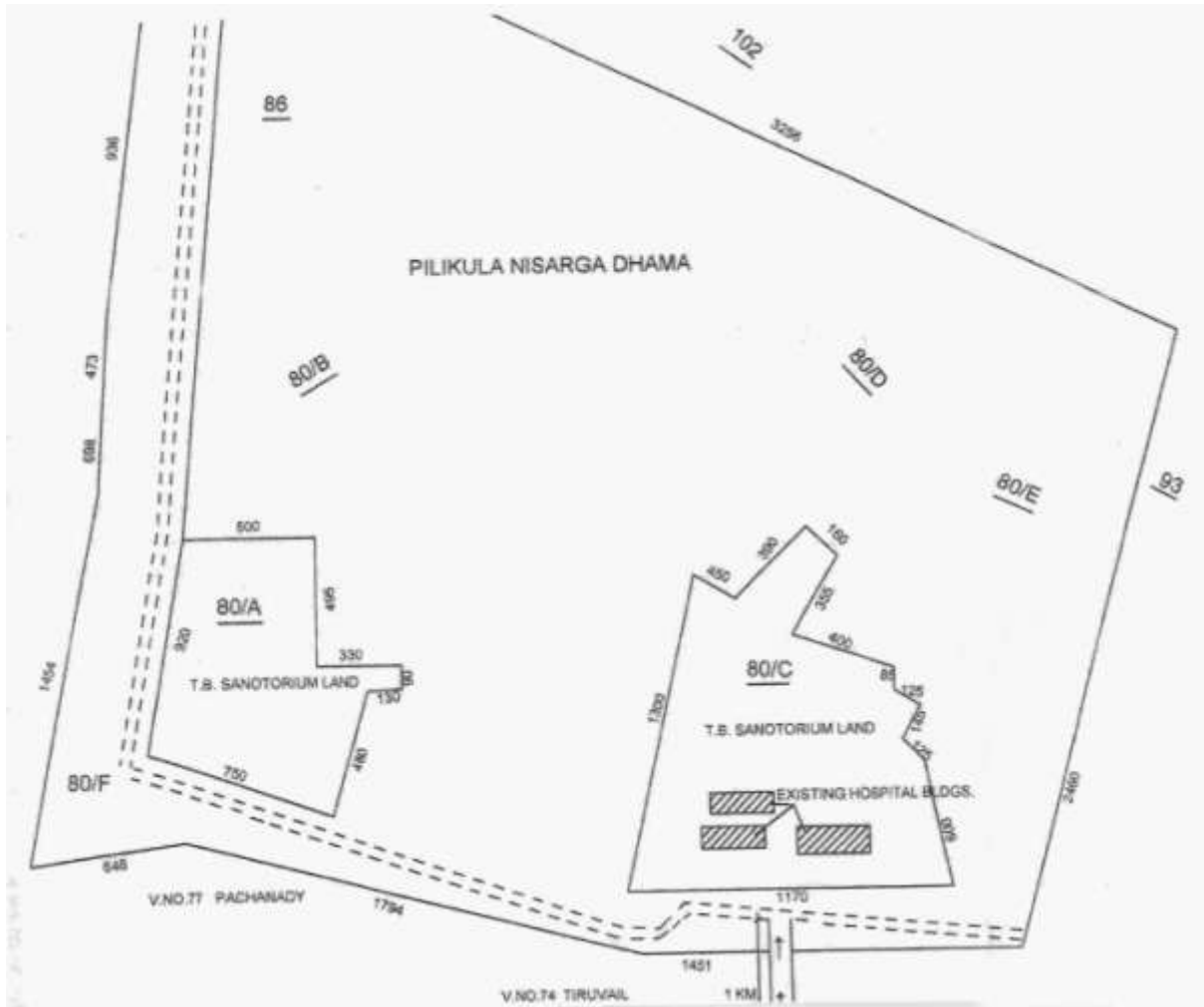


## 12.2 ANNEXURE – B

### 12.2.1 Satellite Image Showing Site Structure – Site 1: Pilikula, Mangalore



12.2.2 Site Sketch – Site 1: Pilikula, Mangalore





**12.2.3 Site Pictures – Site 1: Pilikula, Mangalore**



**Approach Road to the Site**



**Existing Structure Present at the Site**



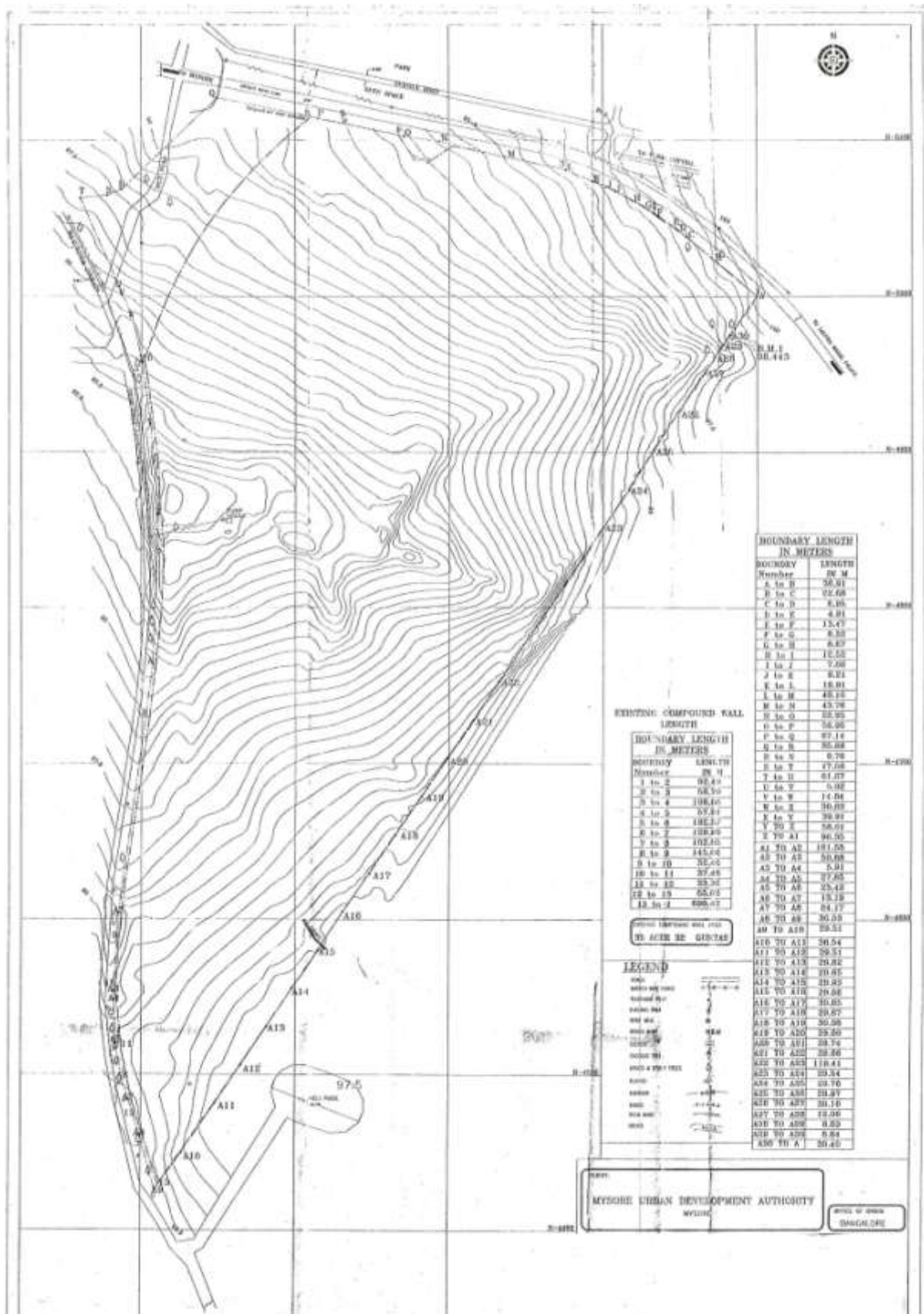
**Dilapidated Structure Present at the Site**



12.2.4 Satellite Image Showing Site Structure – Site 2: Mysore



12.2.5 Site Sketch – Site 2: Mysore





### 12.2.6 Site Pictures – Site 2: Mysore



**Vacant Land With Vegetation**



**Approach Road to the Site**



**Entrance to the Site**