

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

**DEVELOPMENT OF
WELLNESS AND REJUVENATION CENTERS
ON PUBLIC PRIVATE PARTNERSHIP MODEL
AT VARIOUS LOCATIONS IN KARNATAKA**

PRELIMINARY FEASIBILITY REPORT

APRIL 2012

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LIST OF ABBREVIATIONS

BPO	Business Process Outsourcing
CAGR	Compound Annual Growth Rate
CMIE	Centre for Monitoring Indian Economy
DEA	Department of Economic Affairs
DoT	Department of Tourism, Government of Karnataka
F&B	Food and Beverages
GoI	Government of India
GSDP	Gross State Domestic Product
IDD	Infrastructure Development Department
INR	Indian National Rupee
IRR	Internal Rate of Return
IT	Information Technology
Km	Kilometer
KSTDC	Karnataka State Tourism Development Corporation
MICE	Meetings, Incentives, Conferences and Exhibitions
MIS	Management Information System
NH	National Highway
NPV	Net Present Value
NSDP	Net State Domestic Product
PPP	Public Private Partnership
PSC	Public Sector Comparator
RFP	Request for Proposal
RoFR	Right of First Refusal
ROW	Right of Way
RTC	Rights Tenancy & Crops
SH	State Highway
Sq.Km.	Square Kilometer
TA	Transaction Advisor
TOR	Terms of Reference
VFM	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 Wellness and Rejuvenation Centers at various locations in Karnataka 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 show that Post Tax Equity IRR of the project is coming out to be 22%, 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 178.3 Lakh. This indicates that the project has potential to generate INR 178.3 Lakh in NPV terms, which is the indicative amount that DoT may receive from the private developer.

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

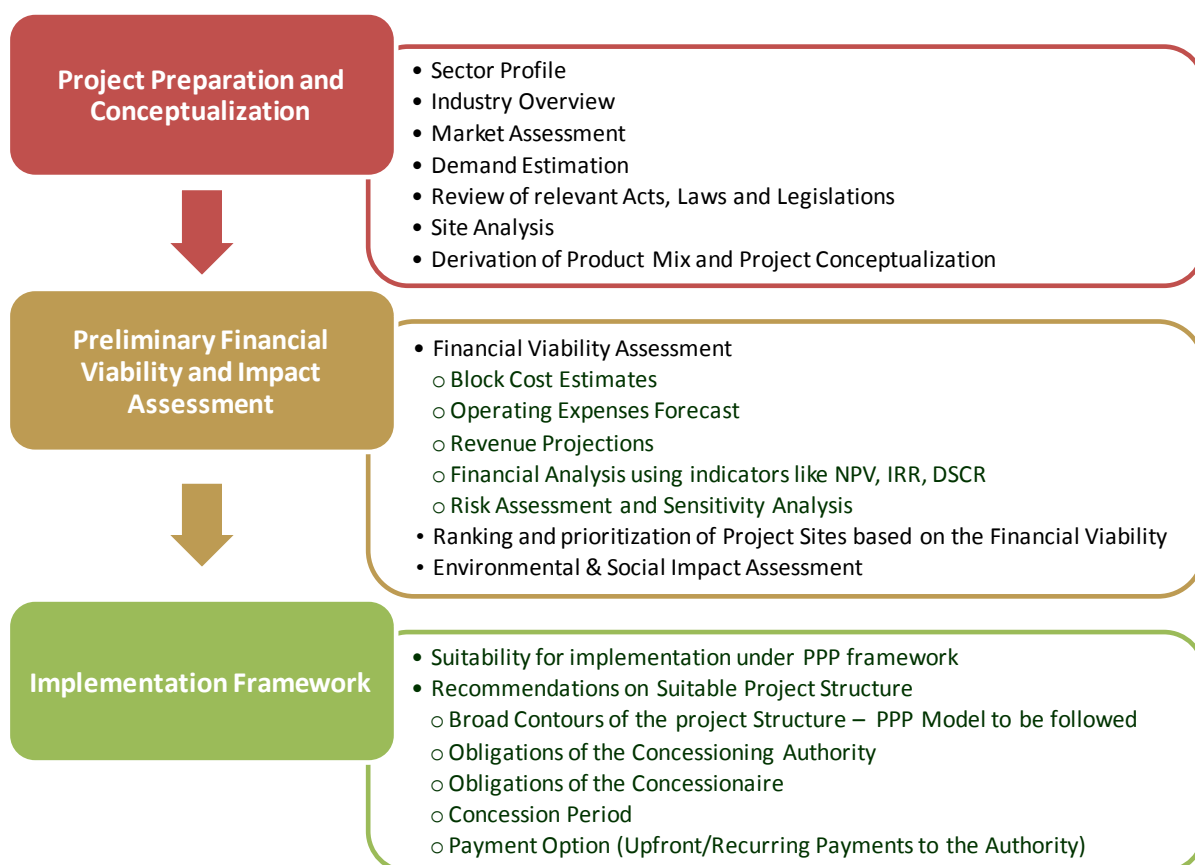
APPROACH AND METHODOLOGY FOR PRESENT DELIVERABLE

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

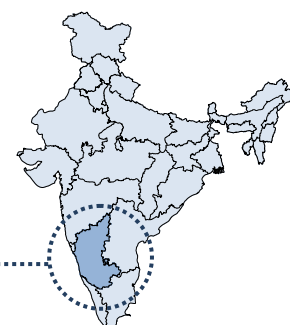


Figure 4.1: Karnataka - Physical Map

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

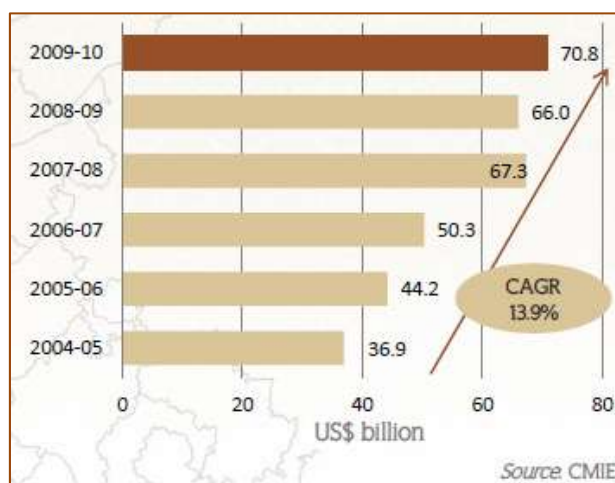


Figure 4.2: Karnataka GSDP, 2004-2010

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 %.

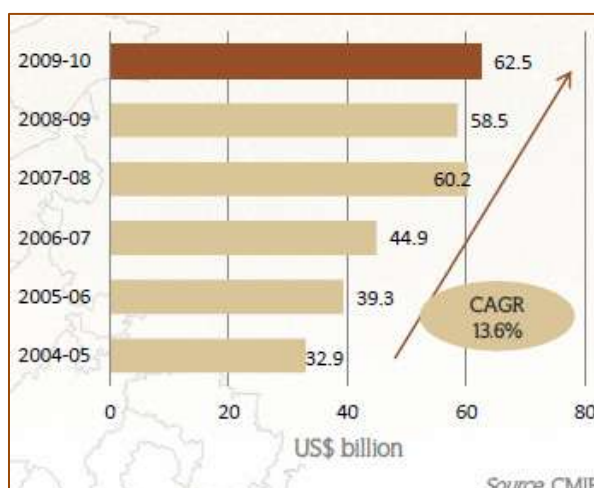


Figure 4.3: Karnataka NSDP, 2004-2010

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.

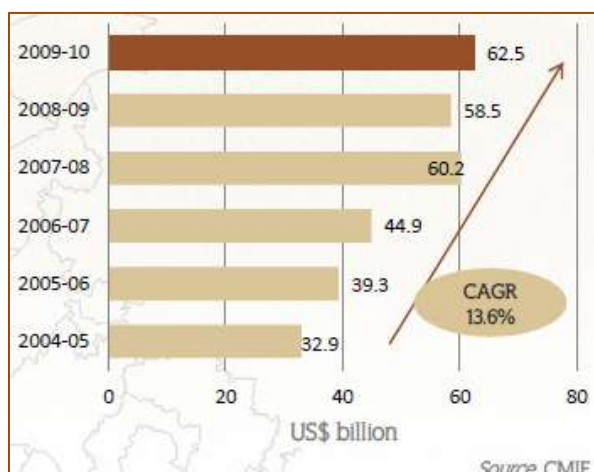


Figure 4.5: Karnataka Per Capita NSDP, 2004-10

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.

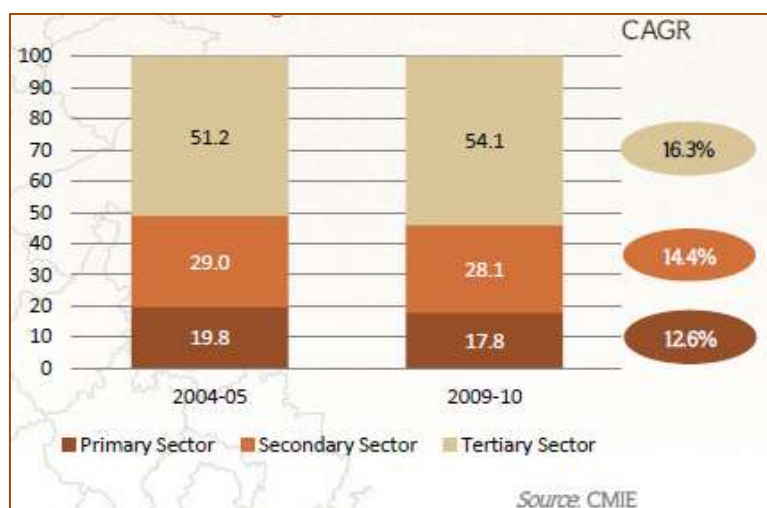


Figure 4.6: Karnataka Percentage Distribution of GSDP, 2004-05 and 2009-2010

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 5th 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
Heritage	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
Natural	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
Wildlife	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
Coastal	Karwar, Kurumgad, Gokarna, Marawanthe, St. Mary's Island, Murudeshwar, Malpe, Kaup, Mangalore
Cultural	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 8th 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

Health and wellness tourism refers to trips that are taken by tourists with the principal purpose being to improve their health and/or wellbeing. Typically this includes one or more of the following: physical fitness programmes, spa visits, medical treatment, health farms, beauty treatment, and many different alternative therapies derived from different cultures.

The health and wellness market can be seen as a continuum reflecting different sub-segments' requirements and interests. At one extreme – the “soft” end – are general wellness consumers who look for high quality facilities, a healthy eating menu, the opportunities for gentle walks in pristine natural settings, and the availability of gym facilities. In the centre of the continuum are those looking for the traditional spa facilities, facial and other treatments, and the practice/performance of treatments based on the healing properties of the waters, mud etc. At the “hard” end are those seeking cosmetic beautification, including surgery. Karnataka is gaining its place at International as well as domestic market for both “Soft” and “Hard” segments of Health and wellness tourism.



5.2 CASE STUDIES ON SIMILAR CONCEPTS

5.2.1 Case Study – Vivanta by Taj - Bekal, Kerala

Bekal is situated in Kasargod district in North Kerala, Sprawled across 26 acres, Vivanta by Taj - Bekal, Kerala is enveloped in a relaxing yet rejuvenating ambience.

The resort is located on the meandering Kerala backwaters, in a stimulating, natural environment with beach access. Vivanta Bekal will have 71 villas and rooms, including 32 rooms with private pools, 4 spa-themed Luxury Bliss Suites and a stunning Presidential Nirvana Suite.



The Spa offers the full range of Jiva Signature treatments, apart from dedicated Ayurvedic consultation and treatment suites. Also housed in the Jiva Spa is a steam bath, sauna and vitality pool. The spa complex is housed across 2.5 acres and flows with the unique architectural styling of the resort. All the treatment rooms have their own private courtyards against a setting of serene water gardens and lush tropical landscaping.

Other Facility includes:

- 24-hour business facilities
- Currency exchange
- Fitness Centre
- Boutique
- Entertainment and invigorating outdoor activities
- Crèche
- Souvenir Shop

5.2.2 Case Study - Soukya, Bangalore

Soukya offers an extensive range of systems of medicine and therapies all under one roof. These include ayurveda, homeopathy, naturopathy, yoga, acupuncture, reflexology, and acupressure. It's owned and operated by a doctor who's been in the holistic health medical practice for over 20 years, and all programs are monitored by qualified doctors and therapists in each specialty. The center consists of 25 rooms on a 30 acre organic farm in the countryside. There's a yoga and meditation hall, recreational facilities, and a long walking/jogging track.



Tariff Structure: Room rates start from \$220 per night for a single deluxe room. Food is included but treatments are additional and cost \$60 per hour. Weekly programs are available from \$145 a day.

5.2.3 Case Study - Ayurvedagram, Bangalore

As the name suggests, the focus of treatment at Ayurvedagram is ayurveda. It's combined with yoga, pranayama (breathing) meditation, and selected beauty treatments to complete the wellness regime. Treatment packages are tailor made to suit guests' needs, as determined by a doctor on arrival. The center specializes in arthritis, low back ache, obesity, diabetes, depression, infertility, and impotency. Guests are accommodated in antique


residential cottages that have been transplanted from Kerala. In fact, all buildings on the 12 acre property are over 75 years old.

Tariff Structure: The average cost of packages is around 55,000 rupees (\$1,150) for 7 days, for a single. It includes accommodations, food, medicine, cultural entertainment, and use of all facilities such as gym and library.



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 style="text-align: center;">Jog</p> 	<p>Location and Connectivity:</p> <ul style="list-style-type: none"> • District – Shimoga • It is located about 50 km from the coast midway between Udupi and Karwar. • Jog is well connected by road through NH-206 connecting NH-4 at Tumkur with NH-17 at Honnavar. • Nearest Domestic Airport : Hubli Airport – 130 km; Bajpe Airport Mangalore – 135 km; Lohegaon Airport Pune - 500km • Nearest International Airport : Bangalore International Airport - 340km <p>Tourist Attraction: Jog Falls, created by the Sharavathi River falling from a height of 253 m (830 ft) is the second-highest plunge waterfall in India</p> <p>Nearby Tourist Destinations: Gerusoppa Dam, Honnavar, Gudavi Bird Sanctuary, Honnemaradu, Keladi, Idugunji, Sagar, Talaguppa, Lushington Falls, Apasarkonda Beach, Linganamakki Dam.</p>
<p style="text-align: center;">Sakleshpur</p> 	<p>Location and Connectivity:</p> <ul style="list-style-type: none"> • District – Hassan • The town lies on National Highway - 48 which connects port city of Mangalore with capital city Bangalore. It is 225 km from Bangalore and 130 km from Mangalore. • Railway route connecting Bangalore – Mangalore passes through Sakaleshpur town • Nearest Airport - Mangalore (134 km) <p>Tourist Attraction: Sakleshpur is located in the Western Ghats, a mountain range that stretches from Kerala to Gujarat. The southern range, which</p>

includes Bisle reserve forest and the region around Sakleshpur is listed as one of the 18 most diverse spots in the world in terms of flora and fauna. The sub-tropical climate and heavy rains during the wet season create an environment where several unique plant and animal species flourish.

Nearby Tourist Destinations: Bisle Ghat – considered as paradise for trekkers and nature lovers, Manjarabad Fort – old Tipu Sultan’s fort which in the shape of star, Shiradi Ghat – Shooting spot.

5.4 PROJECT SITE DESCRIPTION - SITE 1: JOG, SHIMOGA

5.4.1 An Overview of Shimoga District

5.4.1.1 Introduction

Shimoga is located at an altitude of 640 meters above sea level and situated at a distance of 306 Km from Bengaluru and is spread across 7 Talukas – Bhadravathi, Hosanagara, Sagar, Shikaripur, Shimoga, Soraba and Thirthahalli. District is also known as the rice bowl of the state, the profusion of rivers in the district inundate the luxuriant greens of the region. Shimoga has a rich tradition in education, fine arts and culture which remains deeply etched in its people and place. The enchanting natural scenery of waterfalls, hills, hillocks & green dales, rivers & streams, dense forests, flora & fauna, forts & temples, historical places, sandalwood, mouth-watering cuisines and touching hospitality add to the exquisiteness of the place and crafts



5.4.1.2 Connectivity

Shomoga district is well connected to the hinterland and also with the Coastal part of Karnataka. NH 206 and NH 13 passes through the district connecting the southern and northern hinterland respectively with the Coastal cities of Honnavar and Mangalore. District also has good railway connectivity with Bangalore and Mysore. Nearest Airport for SHimoga is a Mangalore at a distance of 200 kms however, Shimoga would be soon getting its own Airport which is under construction now.

5.4.1.3 Demography

As of the 2011 India census, Shimoga has a population of 17, 55, 512 with a population density of 207 persons per sq. km. The district has a sex ratio of 995 females per 100 males with a overall literacy rate of 80.5%, higher than the national average of 59.5%;

5.4.1.4 Economy

Shimoga's economy depends mainly on agriculture and has contributed over 7680 crore to state economy (2008-09). The district has 7 distinct rivers flowing through it irrigating the fields. Rice is mainly grown across the district making it the "Rice Bowl" of Karnataka.

5.4.1.5 Tourism Resource

Shimoga lies in the heart of Malnad and is known for its wilderness and natural beauty. The district has some of the most famous tourist destinations in the state which includes Jog Falls –highest water fall in India, Bhadra Wild life sanctuary, Agumbe, Gudavi Bird Sanctuary etc.

5.4.2 Site Details

Jog Falls is acclaimed as the most famous attractions of the state is situated in the border of Uttara Kannada district and Shomoga at a distance of 100 km from Shimoga City. The falls is created by the Sharavathi River falling from a height of 253 m (830 ft) is the second-highest (after the Nohkalikai Falls with a height of 1100 feet (335 metres) in Meghalaya) plunge waterfall in India.

Associated with the waterfall is the nearby Linganmakki Dam across river Sharavathi, there is a power station which has been operational since 1948, and is of 120 MW capacity was one of the largest hydro-electric stations in India at that time.

Following are the site specific details:

Extent of Land	145 Acre
Ownership of Site	Department of Tourism, Government of Karnataka
Present Site Condition	The site consists of a hillock with fairly dense vegetation. At present the site is lying vacant and is free from any kind of encumbrance.
Linkages and Connectivity	Jog Falls is situated on NH-207 and is at a distance of 40 km from Honnavar and 30 km from Sagar which is the taluk headquarters of Jog. The site is located at a distance of 13 km from Jog falls and is near the village vatemakki. Site is connected by a 30 feet wide road from Jog.

The record of Rights Tenancy & Crops (RTC) and the site pictures are presented as Annexure-B.

5.5 PROJECT SITE DESCRIPTION - SITE 2: SAKLESHPUR, HASSAN

5.5.1 An Overview of Hassan District

5.5.1.1 Introduction

Hassan district is located on the border of the Western Ghats, in the southern part of Karnataka state. Hassan is a picturesque town in the heart of Malnad with a pleasant climate. It is about 180 KM from Bangalore, the capital city of Karnataka. It is surrounded by 6 districts namely Chikmagalur, Mangalore, Kodagu, Mysore, Mandya & Tumkur. Hassan district was the seat of the Hoysala Empire which at its peak ruled large parts of south India from Belur as its early capital and Halebidu as its later capital during the period 1000 - 1334 CE.

5.5.1.2 Connectivity

Hassan district is well connected by road and NH-48, NH206 passes through the district. The nearest airports are Mysore (115 km), Bangalore (117 Miles/187 K.M) followed by the one in Mangalore. Hassan comes under the South Western Railway zone of the Indian Railways. Hassan City Railway station connects it to the rest of the country through the Indian Railways. Hassan is connected by rail to most cities in Karnataka, as well as Mumbai and other major cities in India.

5.5.1.3 Demography

The district has a total population of over 17.76 lakhs with a literacy rate of 75.89%. The density of population varies considerably amongst the taluks. With a density of 385 persons per sq.km Hassan taluk tops the list and this is followed by Arkalgud (295), Holenarasipura (290), Channarayapatna (266), Arasikere (238), Belur (217), Alur (199) and the lowest density of 129 persons per sq.km is noticeable in the case of Sakaleshapura taluk.

5.5.1.4 Economy

Hassan District has a vibrant Agriculture base which makes it ideal for Food processing and Agro Based Industries. The district has been identified as an Industrial Growth Centre, Agri Export Zone and Special Economic Zones (SEZ), which would fuel accelerated growth of general and agro processing industries. Tourism and coffee are the two main sources of income of Hassan district. Coffee is grown in the malnad areas of Sakleshpura which is also one of most visited tourist destination in the district.



5.5.1.5 Tourism Resource

Hassan has a lot of potential to offer for tourism sector whether it is Religious tourism/Historical tourism or Leisure tourism. There are large number of ancient temples in the Hassan District most of which are looked after by the Archeological Survey of India (ASI). Besides this Hassan has a lot of places to offer in terms of natural and ecological sites which mainly includes major water dams of Karnataka, Hill stations and scenic beauty spots mostly in Sakaleshpur and around. Tourist Destination of Hassan is of national importance with temples of Belur, Halebidu and Shraavanabelagola being under the list of UNESCO World Heritage Sites.

5.5.2 Site Details

Sakleshpur is a hilly area with dense forest located in the Western Ghats. The southern range, which includes Bisle reserve forest and the region around Sakleshpur is listed as one of the 18 most diverse spots in the world in terms of flora and fauna. The sub-tropical climate and heavy rains during the wet season create an environment where several unique plant and animal species flourish.

The site is located in close proximity to Bisle Ghat, Sakleshpur coffee plantations which is already a known tourist destination. The site is ideally suited location for wellness resort as it is away from the city traffic and pollution.

Following are the site specific details:

Extent of Land	15 Acre
Survey Number	127
Ownership of Site	Department of Tourism, Government of Karnataka

Site map along with the record of Rights Tenancy & Crops (RTC) is presented as Annexure-B.

CHAPTER

6

MARKET ASSESSMENT

6.1 INDUSTRY OUTLOOK

World over, there is growing interest in changing the perspective towards the way of living from a reactive approach i.e. to treat diseases, to a more proactive and holistic approach i.e. to address their root cause and to prevent their occurrences. World Health Organization definition of health, as a state of complete physical, mental and social well-being and not merely the absence of disease or infirmity, captures the broad tenets of wellness.

According to a study reported in the Global Spa Summit Report 2010, it is conservatively estimated that the wellness industry cluster represents a market of nearly \$2 trillion dollars globally out of which spas, complementary & alternative medicine, healthy eating/nutrition & weight loss constitute US \$ 60 billion, US \$ 113 billion & US \$ 276 billion respectively. It is also estimated that there are already about 289 million wellness consumers in the world's 30 most industrialized and wealthiest countries.

Wellness tourism is regarded as a sub-segment of medical tourism. Here, the primary purpose is achieving, promoting or maintaining good health and a sense of well-being. India with widespread presence of Ayurveda, Yoga, Siddha, and Naturopathy, complemented by its spiritual philosophy, is a well-known wellness destination. Wellness tourism includes ayurvedic therapies, spa visits, and yoga meditation.

In India, wellness is a concept which has been in vogue since ancient times. Traditional medicinal and health practices like Ayurveda and yoga have propounded the concept of mental and bodily wellness. Most of the ancient wellness concepts have largely focused on the basic needs of an individual within the need hierarchy, namely a focus on health, nutrition and relaxation.

With the progress of time, wellness as a concept has taken up a multi-dimensional definition, encompassing the individual's desire for social acceptance, exclusivity and collective welfare. Chiefly influenced by changes in society and in the lifestyles of individuals, this change has also been accelerated by extraneous factors like globalization and a greater awareness of the need for wellness among individuals.

Wellness players thus have responded to this change, shifting their focus from traditional offerings like curative healthcare and value oriented mass products to new generational offerings like preventive healthcare, luxury products and personalized services.

Perhaps the many instances of young corporate honchos collapsing in the past year or two has been a wake-up call to the average Indian that it is time to give their health, priority. A direct consequence is that most people have adopted some or the other form of physical activity in a bid to attain fitness and sustain high energy levels that go with success. Adjacent industries such as retail, healthcare, hospitality, among others, are assimilating wellness as part of their value proposition, opening up huge opportunities going forward. The wellness industry in India has evolved rapidly from its nascent unstructured beginning in the early 1990s to a comprehensive ecosystem today. This ecosystem comprises consumers, providers, adjacent industries, facilitators and the Government.

While the Consumers mainly comprise a young population with rising income levels and the increasing need to look good and feel good, which has led these young consumers to seek wellness solutions to meet lifestyle challenges, the Providers offer wellness services and products to meet the hygiene, curative and enhancement needs of the consumer. The Adjacent industries, such as healthcare, media, retail, gaming, hospitality and education capitalize on the growth of the wellness sector to generate additional revenue streams, leverage existing competencies and offer a wider array of services/products to customers while the Facilitators, include employers, insurance companies and schools, who are likely to play a key role in encouraging and inculcating pro-wellness habits among consumers going forward. The last participant, the Government wears multiple hats in its roles as a provider, facilitator, enabler, and regulator in the industry.

Some of the key industry trends in this sector, include:

- The growing wellness industry has attracted a large number of domestic entrants and international players.
- Established players are pursuing revenue maximisation through product and service diversification and are exploring new global and domestic markets. Franchising is emerging as a popular option for scaling up.
- Companies are actively seeking public and private equity investments to fuel their growth.
- While there is strong optimism about future growth prospects, recovery of investments may spread over a longer horizon than anticipated.
- There exists an opportunity for micro-segmentation to develop more targeted value propositions for consumers and commercialisation of traditional Indian home remedies.

India has one of the most lucrative health and wellness tourism markets in the world. The Indian health and wellness market recorded remarkable growth during the review period (2007–2011), which was driven by factors such as the Indian government’s favorable policies and initiatives, and improvements in the country’s healthcare services, including reduced costs and waiting times plus improved healthcare infrastructure. India is associated with its rich culture and tradition of wellness therapies and spiritual practices. It is therefore only natural for globetrotters to see India as a leading destination for spa and rejuvenation

Despite being smaller in size than developed countries, India’s health and wellness tourism industry is developing rapidly on both the regional and national level. Furthermore, the country holds enormous potential for future growth in the market. Wellness tourism is a rapidly emerging segment in the Indian tourism market. India has promoted good quality unique travel experiences across the country on an emotional, physical, intellectual and even spiritual level. Moreover, the Ministry of Tourism is aiming to capitalize on India’s potential from its traditional systems of wellness and medicines, such as ayurveda, siddha and yoga, to present the country as a unique destination for spiritual healing.

6.2 OPPORTUNITIES & DEMAND ASSESSMENT

The medical tourism industry in India has been estimated to increase to around US\$20 billion over the next couple of years. Expenditure of key health care treatment is up to 30 percent low in

comparison to the United States and United Kingdom. Wellness tourism in India emerges as a huge money generator. India has been promoting its wellness tourism by giving the tourists with personal healthcare services.

As per the latest report by global hospitality consultant HVS, India was ranked in the top 20 list of top spa countries worldwide, with 2,359 operational spas. The industry is estimated to have generated around \$384 million annually and employs about 22,175 people.

As per a recent study by the Stanford Research Institute International, the global wellness industry represents a market of nearly US\$ 2 trillion as opposed to the Indian Wellness Industry, which is a US\$ 9.8 billion market; accounting therefore, for less than 2% of the global wellness industry. It is interesting to note the manner in which this industry has used the business potential of traditional Indian practices and home remedies and has moved from being a notion about luxury services to becoming a necessity. This is attributed to the fact that people want to live longer and healthier lives and so wellness, at some level or the other, is no longer the comfort of the rich. It is believed that with the active involvement of the government and private participants, the wellness industry in India can create visible impact on a global scale. By 2015, wellness services alone are expected to have the potential to generate three million job opportunities. However, it is critical for the government and private participants to simultaneously invest in education infrastructure and quality standards to provide further impetus to the industry.

Considering the huge demand and limited supply in the country, there is decent potential in the wellness industry which Karnataka can tap. With excellent international connectivity and exceptional medical facilities, Karnataka has the prospects to emerge as the hub for 'health and wellness tourism' in India.

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:

Proposed Product Mix		
Cottages	20,000	sqft
Swimming Pool	4,035	sqft
Changing Rooms and Showers	650	sqft
Massage and Treatment Rooms	1,560	sqft
Sauna and Steam Bath	753	sqft
Yoga & Meditation Hall	1,000	sqft
Fitness Room	807	sqft
Recreation Room with Indoor gaming facility	1,000	sqft
Restaurant	1,681	sqft
Kitchen	1,614	sqft
Staff Accommodation (Dormitory)	819	sqft
Common Toilet Block	274	sqft
Admin Area	500	sqft
Circulation Area	8,673	sqft
Parking Area	21,251	sqft
Open and Landscaped Area	5,88,782	sqft
Total Site Area (15 Acre)	6,53,400	sqft

The above activity mix is derived after taking into consideration a land parcel of 15 Acre for development of envisaged facilities at each of the project location.

7.3 ASSUMPTIONS FOR FINANCIAL ANALYSIS

7.3.1 Construction Period

It is assumed that development of project will take 2 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:

Cost of Construction		
Site Development	200	Rs/sqft
Civil Work	1,200	Rs/sqft
Cost of Furnishing	2,000	Rs/sqft
Cost of Machinery and Equipments	50	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:

Marketing Expenses	
Marketing & Brokerage	@1.5% of the total revenue
O&M Expenses	
Maintenance of the Facility	
– Maintenance of Built-up Area, Machinery and Equipments	5% of the Capital Cost per Annum
– Maintenance of Landscaped Areas	3% of the Capital Cost per Annum
Raw Material Cost for F&B	60% of the revenue from F&B
Raw Material Cost for Spa Facilities	40% of the revenue from SPA
Annual Inflation	5%

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 from Cottages (Rack Rent)	5,500 Rs/Cottage/Day
Annual increase in Rack Rent	5%
Revenue from F&B	15% of the Revenue from Rack Rent
Revenue from Spa Facilities	20% of the Revenue from Rack Rent

Realization of Revenue	Operational Year				
	1	2	3	4	5 onwards
Occupancy of Cottages	30%	40%	50%	60%	70%

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

Construction Cost	2744.6 INR Lakh
Pre-operative Expenses	613.6 INR Lakh
Total Landed Cost of the Project at Each Location	3358.1 INR Lakh

7.4.2 Financial Indicators

Post Tax Project IRR	18%
Post Tax Equity NPV @20% discount rate	INR 178.3 Lakh
Post Tax Equity IRR	22%

Results of financial analysis show that Post-Tax Project IRR is coming out to be 20%. Post Tax Equity IRR of the project is coming out to be 22%, 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 178.3 Lakh. This indicates that the project has potential to generate INR 178.3 Lakh in NPV terms, which is the indicative amount that DoT may receive from the private developer.

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.

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%	20%	21%	22%	23%	24%	25%
	-15%	17%	18%	19%	20%	20%	21%	22%	23%	24%
	-10%	16%	17%	18%	19%	20%	21%	21%	22%	23%
	-5%	15%	16%	17%	18%	19%	20%	21%	21%	22%
	0%	15%	16%	16%	17%	18%	19%	20%	21%	21%
	5%	14%	15%	16%	17%	17%	18%	19%	20%	21%
	10%	13%	14%	15%	16%	17%	18%	18%	19%	20%
	15%	13%	14%	15%	15%	16%	17%	18%	19%	19%
	20%	12%	13%	14%	15%	16%	16%	17%	18%	19%

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%	54.9	190.1	320.2	452.0	586.7	726.4	867.9	1011.2	1150.6
	-15%	-54.8	82.9	218.5	350.3	484.0	620.5	762.0	905.3	1050.4

	-10%	-164.5	-26.8	112.8	248.6	382.3	517.7	656.1	799.4	944.5
	-5%	-271.9	-136.5	3.1	144.6	280.6	416.0	553.1	693.5	838.6
	0%	-378.4	-245.1	-106.6	34.9	178.3	314.2	451.4	590.3	732.7
	5%	-484.9	-351.6	-216.2	-74.8	68.6	212.5	349.7	488.6	629.3
	10%	-591.4	-458.2	-323.1	-184.4	-41.1	104.2	248.0	386.9	527.6
	15%	-703.5	-564.7	-429.6	-292.7	-150.8	-5.5	141.6	285.2	425.9
	20%	-815.9	-672.7	-536.1	-399.2	-260.4	-115.2	32.0	181.0	324.2

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%	21%	23%	24%	26%	28%	30%	32%	34%	36%
	-15%	19%	21%	23%	24%	26%	28%	30%	32%	34%
	-10%	18%	20%	21%	23%	25%	26%	28%	30%	32%
	-5%	17%	18%	20%	22%	23%	25%	26%	28%	30%
	0%	16%	17%	19%	20%	22%	23%	25%	26%	28%
	5%	15%	16%	18%	19%	21%	22%	24%	25%	27%
	10%	14%	16%	17%	18%	20%	21%	22%	24%	25%
	15%	13%	15%	16%	17%	19%	20%	21%	23%	24%
	20%	13%	14%	15%	16%	18%	19%	20%	22%	23%

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.

Based on the above framework, NPV of cash flows to the public sector is calculated as INR 2008.2 Lakhs. NPV of risks to be added back is as follows:

NPV of Risks to be added onto base PSC model

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%	1582.1	-426.1

Risks		Financial Impact	NPV at Risk (INR Lakhs)	NPV of Risk to be added back (INR Lakhs)
	Construction Time Overrun	Time overrun of 50% of the Construction Period	1608.0	-400.2
Operation Phase	Revenue Shortfall	Decrease in revenue by 15%	1146.4	-861.8
	Opex risk	Increase in O&M Cost by 15%	1783.7	-224.5
NPV of all transferred Risks to be added back to base PSC model				-1912.6

Therefore INR (-) 1912.6 Lakh is the NPV to be added back to the base PSC model. The risk adjusted PSC reference therefore comes out to be INR 95.6 Lakh, i.e., the net receivables to the government for implementing the project through DoT is INR 95.6 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

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%	1582.1	0.0
	Construction Time Overrun	Time overrun of 50% of the Construction Period	1608.0	0.0
Operation Phase	Revenue Shortfall	Decrease in revenue by 15%	1146.4	0.0
	Opex risk	Increase in O&M Cost by 15%	1783.7	0.0
NPV of all retained Risks to be added back to base PPP Reference model				0.0

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

Indicator	INR Lakhs
NPV of cash flows to Government (PPP Reference)	178.3
NPV of retained risks to be added back to PPP reference	0.0
Risk Adjusted PPP Reference (A)	178.3
NPV of cash flows to Government (Base PSC Model)	2008.2
NPV of Transferred risks to be added back to base PSC model	(-) 1912.6
Risk Adjusted PSC (B)	95.6
Value for Money (A-B)	82.7

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 82.7 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, the project has potential of generating INR 178.3 Lakh, which indicates the present value of the likely receivables for the DoT from the envisaged project.

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 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.

8.1.3 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"> Pre-construction Stage - Cutting of trees, clearing of shrubs 	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"> Construction Stage - Construction activities for development of the project 	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"> Operation & Maintenance Stage - O&M activities of the machinery and equipments 	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
Construction and Completion Risk	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.
Demand Risk	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.
Commercial Risk/ Revenue Risk	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.
Financial Risks	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.
Political Risk	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.
Force Majeure Natural Events	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

Concession Period	30 years with RoFR to the Concessionaire at the end of Concession Period.
Payment Option	<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 & 2</p>

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

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 Record of RTC – Site 1: Jog

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Village Account Form

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12.2.2 Site Pictures – Site 1: Jog

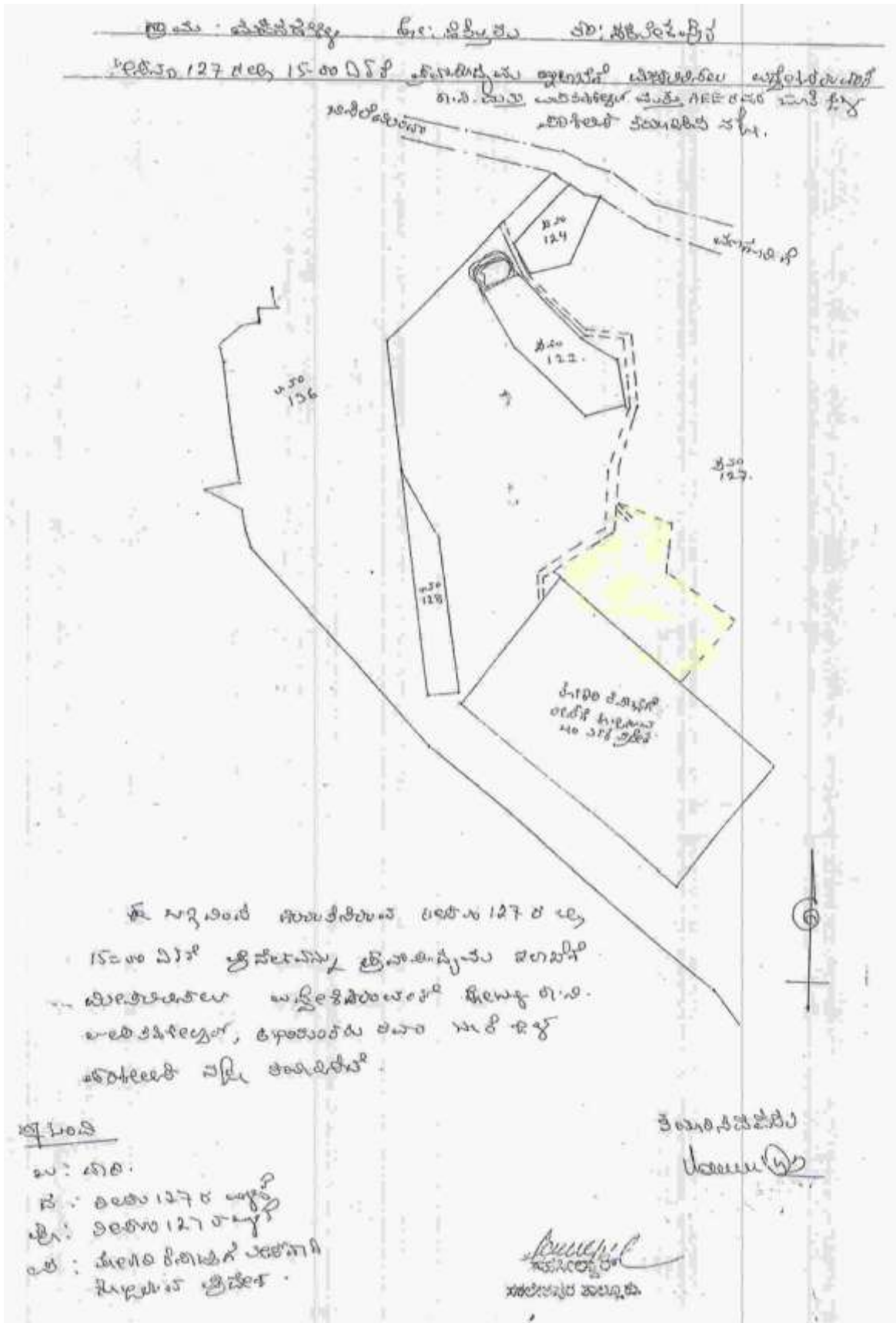


Panoramic View of the Site



Panoramic View of the Site

12.2.3 Site Sketch and Record of RTC – Site 2: Sakhleshpur



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