

Contract Termination / Renewal Decisions



❖ **Contract Review Mechanism**

- Milestone to be fixed for successful completion
- Quality standard
- Timeline for completion of various project activities
- Cost break up
- Advance action for various approvals
- Submission of periodic progress report

❖ Review Techniques

- Project Site inspections
- Techno-Commercial audit
- Periodical meetings
- Review of CPM
- Mid-Term review
- Circulation of minutes & action taken report
- Customers satisfaction / feedback report

❖ **Results of Non-Monitoring/Poor Monitoring**

Quantitative factors

- Time over runs
- Cost over runs
- Debt restructuring
- Revenue losses

Qualitative factors

- Public inconvenience
- Public goodwill / image
- Project creditability

❖ Precautions

- Safe custody of all important documents / files
- Periodic transfer of project team members
- Consultation of legal experts

❖ **Contract Termination**

Implication

‘ End of legal relationship and discontinuance of legal obligation under the contract’

Conditions precedent to termination of contract

- Mutual consent
- Material breach of condition under the contract
- Insolvency
- Change in control

❖ Termination Activities

- Opportunity to cure
- Issue of notice of termination
- Execution of balance contract at risk and cost of the defaulting contractor

❖ **Contract Renewal / Contract Extension**

Determinants

- Evaluation of suppliers performance
- Contracted price Vs market price
- Presence of competitors in the market
- Legal Provision in the contract

❖ **Economic evaluation of business contracts**

- **What we do in economic evaluation?**
‘For an investment to be worthwhile, the future benefits expected should compare sufficiently favorably with the expenditure needed to achieve it’
- **How we calculate?**
‘Cash Flow techniques – IRR, NPV, DCF’
- **How do we select the project?**
‘Benchmarking of return on project’
‘Sensitivity analysis’
‘Competitiveness of the project’
‘Risk Profile of the Project’
‘Strategic Decision’

❖ **Economic evaluation of business contracts**

- **Do we consider other factors?**

- ‘Technically evaluation’

- ‘Financial arrangement’

- ‘Safety’

- ‘Legal & Environmental consideration’

- ‘Contribution to the society’

- ‘First mover advantage’

- **Do we compare pre & post project IRR?**



Thank You