Project Finance in PPP

Presented by
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PPP (Public Private Partnership) involves a contract between a public sector authority and a private party for providing public service, wherein private party assumes substantial financial, technical and operational risks.
Need for PPP

- Imperative need to improve public infrastructure to promote commerce and achieve ambitious growth rate of 10% p.a.

- Investment requirements are projected at $514 bn (at Rs 40/$) in the 11th Five year plan (2007-2012)

- Power, roads, railways, water, ports, airports and irrigation requirements are projected at USD 430 billion (2007-2012)

- Govt. resources are inadequate to fund the growth in infrastructure.

- 37.24% of Infrastructure investment (USD 191.4 bn) to come from Central Government; 32.63% (USD 167.7 bn) from State Government and 30.13% of the infrastructure investment (USD 154.9 bn) to come from private sector including PPP

- The above does not include requirements of Rural Infrastructure
PPP: ADVANTAGES

- Supplementing limited public sector resources
- Bringing in private sector expertise and Cost reducing technologies
- Faster implementation of projects
- Improvement in efficiencies in operation and maintenance of projects
Basic requirements of a PPP Project

• Phased development
• Technical parameters focus on level of service
• Concession period linked to traffic projection
• Competitive bidding on single parameter
• Grants to bridge viability gap
• Well defined tariff structure
• Risk allocation
• Definite Financial Closure
• Maintenance standards
• Right of Substitution
• Protection against political actions
• Pre-determined termination payments
• Support by the Authority
• Effective Dispute Resolution Mechanism
Characteristics of PPP Projects

- Initial investment requirements may be substantial
- The projects yield returns over the long term
- Ability to recover the economic price from users along with ensuring viability becomes the principal issue. (Historically, infrastructure services have been provided by the government at prices that are substantially lower than the economic cost.)
- Extended gestation periods expose infrastructure projects to greater financial risks during the construction phase that necessitates effective risk management
- Major land acquisition issues which arise due to undervaluation of land, rehabilitation and resettlement issues
- Adequate dispute resolution and redressal mechanisms are not in place for quick resolution of disputes
Financing PPP Projects
Possible Financing options

- **Multilateral Agencies** (World Bank / IFC / ADB)
  - Guarantees / Risk insurance / funding

- **Government**
  - Subsidies / Grants
  - Equity - IPO, PE, FCCB, CCD, FCEB, ADR/GDR, Sub Debt

- **Project Sponsor**
  - Debt funding - RIL, ECB, Bonds, Securitization

- **Commercial Banks**
  - Guarantees / credit enhancement

- **Export Credit Agencies**

- **Project**
APPRAISAL OF PPP PROJECTS

Promoter Assessment

- Ability and expertise to implement the project
- Resourcefulness of the promoters

Technical Assessment

- Evaluating the impact of terms of the Concession Agreement, Detailed Project Report, EIA Report etc.
- Support of state Govt./GOI and other related statutory authorities.
- Availability of protection of lenders' interest in case of termination of Concession Agreement.
- Selection and defining the scope of EPC contractor, O&M contractor
- Appointment of Lenders Engineer, other project consultants.

Market Assessment

- Appointment of independent traffic consultant and evaluation of traffic projections

Financial Assessment

- Satisfactory project parameters such as DSCR, Project IRR, ROE, DER
- Cash flow based funding as compared to asset based funding for other conventional projects.
- Step-in rights of lenders & substitution agreement.
- Adequate concession period and viability gap funding.
Debt

- **Rupee Term Loan** - Plain vanilla product offered by Banks
- **ECB**
  - Used primarily for import of capital goods/equipment in Power projects (Boilers, Turbines, Generators), Telecom, and Port Projects
  - Cheaper than Rupee term loans but exposes borrower to currency risk
  - Currency risk can be mitigated by using derivatives
- **Bonds** provide low cost, long term funds. However bond market in India is not well developed
- **Securitization** - Securitization of long term receivables eg. toll receivables with PFs/Pension Funds/Insurance cos
- **Buyers Credit & Capex LC** are used by importers for purchasing Capital Goods and equipments
- **Export credit agencies:**
  - Provides direct finance and guarantee commercial bank credit.
  - Dominant source of international capital to finance infrastructure projects.
- **Multilateral institutions**
  - Traditionally funded public sector infrastructure projects and guaranteeing commercial loans extended to private sector infrastructure projects.
  - World Bank's partial credit guarantee is an example of such assistance.
  - Asian Development Bank has also provided loan guarantees.
Equity/ Quasi Equity

• **IPOs/ Private Equity**

• **Foreign Direct Investment (FDI)** in the form of American Depository Receipts (ADRs) and Global Depository Receipts (GDRs)

• **Sub-ordinate (Mezzanine) Debt Financing**
  - Internal restrictions on equity participation by financial institutions
  - Lower equity availability and limited debt-equity ratio restricts market borrowing for companies on a large scale
  - Funding could be considered as deemed equity for a specific period granting better financial leverage

• **Convertible Instruments (CDs/ CCPS/Convertible Debentures with warrants):**
  - Hybrid Instrument with debt- and equity-like features
  - Investor receives the potential upside of conversion into equity while protecting downside with cash flow from the coupon payments
  - Key benefit of raising money for corporates is reduced cash interest payment at the cost of possible future equity dilution

• **Issuing Equity to Users/Stakeholders:**
  - Landowners made equity shareholders in Project Company – Eg Magarpatta City
  - JV with coal mining entity/end user in case of Power Projects
Viability Gap Funding (VGF)

- **VGF Scheme provides grant up to 40% of the project cost**

- **Including alternate assets in Projects** - Land packets along the highway, Eg Yamuna Expressway

- **Levying tax/toll on users of facility**
  - UDF on passengers at Delhi, Mumbai Airport
  - Toll collection during construction period in select 4 to 6 laning road projects
Risks involved in Road Sector Projects

**Funding**

- The CA doesn’t allow any charge on the Project Assets including revenues/receivables, rights under project agreements to the Lenders
- Variation between the Total Project Cost in DPR and Concessionaire’s estimate
- Lack of active loan/secondary bond market restrict churning of the loan portfolio
- Non-availability of reliable traffic information and historical records to base financial projections on

**Execution**

- Delay in Land Acquisition/ RoW affect declaration of Appointed Date & COD
- Cost overrun due to change in scope or hyper-Inflation

**Regulation**

- Consistent long-term policy framework in terms of CA, selection guidelines (RFP/RFQ), the toll policy and tax treatment
- Need for an independent regulatory authority for monitoring the progress and dispute resolution
- New regulations to encourage securitization and facilitate exit of companies during operations to take up new assignments
Axis Bank - Road & Rail (Select Transactions)
Select Roads & Railways Transactions

1. **NATIONAL HIGHWAYS AUTHORITY OF INDIA**
   - Consultant Structuring & Bid Process for MP-1 (Section on NH-75)
   - Ongoing

2. **NATIONAL HIGHWAYS AUTHORITY OF INDIA**
   - Consultant Structuring & Bid Process for MP-2 (Section on NH-7)
   - Ongoing

3. **NATIONAL HIGHWAYS AUTHORITY OF INDIA**
   - Consultant Structuring & Bid Process for MP-3 (Section on NH-7)
   - Ongoing

4. **NATIONAL HIGHWAYS AUTHORITY OF INDIA**
   - Consultant Structuring & Bid Process for MP-UP (Section on NH-75)
   - Ongoing

5. **NATIONAL HIGHWAYS AUTHORITY OF INDIA**
   - Consultant Structuring & Bid Process for UP-1 (Section on NH-2)
   - Ongoing

6. **NATIONAL HIGHWAYS AUTHORITY OF INDIA**
   - Consultant Structuring & Bid Process for UP-2 (Section on NH-26)
   - Ongoing

7. **NATIONAL HIGHWAYS AUTHORITY OF INDIA**
   - Consultant Structuring & Bid Process for UP-3 (Section on NH-7)
   - Ongoing

8. **BANGALORE METRO RAIL CORPORATION LTD.**
   - Arranger INR 81,600
   - Ongoing
Select Roads & Railways Transactions

- **Trichy – Karur Toll Road Ltd.**
  - Arranger
  - INR 4,390 Mn
  - 2008

- **Pink City Expressway Ltd.**
  - BOT Toll Road Project
  - Arranger
  - INR 9,500 Mn
  - 2009

- **Badarpur Faridabad Tollways Ltd.**
  - Advisor & Sole Arranger
  - INR 4,000 Mn
  - 2009

- **GF Toll Road Ltd.**
  - Arrangers
  - INR 5,850 Mn
  - 2009

- **Western MP Infrastructure & Toll Roads Pvt Ltd.**
  - Arranger
  - INR 5,100 Mn
  - 2008

- **ADANI LOGISTICS LTD.**
  - Container Train Operations Arranging:
  - INR 2,240 Mn
  - 2007

- **Pondicherry Tindivanam Toll Road Pvt Ltd.**
  - Arranger
  - INR 2,022 Mn
  - 2008

- **Jaypee Infratech Limited**
  - Expressway from Noida to Agra
  - Advisor and Arranger
  - INR 60,000 Mn
  - 2009

- **Western MP Infrastructure & Toll Roads Pvt Ltd.**
  - Arranger
  - INR 4,390 Mn
  - 2008

- **Trichy - Karur Toll Road Ltd.**
  - Arranger
  - INR 4,390 Mn
  - 2008

- **Jaypee Infratech Limited**
  - Expressway from Noida to Agra
  - Advisor and Arranger
  - INR 60,000 Mn
  - 2009

- **Pink City Expressway Ltd.**
  - BOT Toll Road Project
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  - INR 9,500 Mn
  - 2009

- **Badarpur Faridabad Tollways Ltd.**
  - Advisor & Sole Arranger
  - INR 4,000 Mn
  - 2009

- **GF Toll Road Ltd.**
  - Arrangers
  - INR 5,850 Mn
  - 2009

- **Western MP Infrastructure & Toll Roads Pvt Ltd.**
  - Arranger
  - INR 5,100 Mn
  - 2008

- **ADANI LOGISTICS LTD.**
  - Container Train Operations Arranging:
  - INR 2,240 Mn
  - 2007

- **Pondicherry Tindivanam Toll Road Pvt Ltd.**
  - Arranger
  - INR 2,022 Mn
  - 2008
Select Roads & Railways Transactions

1. **Trichy Dindigul Toll Road Ltd.**
   - Arrangers
   - INR 3,220 Mn
   - 2008

2. **Himalyan Expressways Ltd.**
   - Arranger
   - INR 2,400 Mn
   - 2007

3. **Hyderabad Ring Road Project Pvt. Ltd.**
   - Arranger
   - INR 2,440 Mn
   - 2007

4. **ORIENTAL PATHWAYS (INDORE) PVT. LTD.**
   - Arranging
   - INR 5,200
   - 2006

5. **Jaypee DSC Ventures Ltd.**
   - (Delhi-Gurgaon expressway)
   - Arrangers & arrangers
   - INR 3,830 Mn
   - 2006

6. **GMR AMBALA CHANDIGARH EXPRESSWAYS PVT. LTD.**
   - Arranger
   - INR 2,820
   - 2006

7. **Salem Ulundurpet Toll Road Pvt. Ltd.**
   - Arranger
   - INR 6,370 Mn
   - 2008
Select Roads & Railways Transactions

1. NANDI ECONOMIC CORRIDOR ENTERPRISES LTD.
   Arranger INR 1,480 mn
   2006

2. GMR TUNI ANAKAPALLI EXPRESSWAYS PVT. LTD.
   Arranger INR 3,810 mn
   2005

3. GMR TAMBARAM TINDIVANAM EXPRESSWAYS PVT.
   Arranger INR 4,901 mn
   2005

4. DSC VICON VENTURES LTD.
   Arranger INR 4,150 mn
   2009

5. RELIANCE
   DINDIGUL SAMAYANALLUR TOLL ROAD LTD.
   Arranger INR 4,150 mn
   2009

6. NAMAKKAL-KARUR TOLL ROAD LTD.
   Arranger INR 2,750 mn
   2006

7. KMC
   THRISSUR EXPRESSWAY PVT LTD.
   Advisors & Arranger INR 5,077 mn
   2010

8. SREI
   MAHAKALESHWAR TOLLWAY PVT. LTD.
   Advisors & Arranger INR 2,390 mn
   2009
Thank You...