
Financing of State Highways

Conference on Public Private Partnership in
State Highways

July 5, 2010



Agenda

Background

Creating bankable PPP projects

Sources of financing

In summary



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Indian road network

- **World's third largest road network after US & China**
 - **3.3 million km network**
 - National Highways (NH) : 70,500 km (2%)
 - State Highways (SH) : 130,000 km (4%)
 - Major District Roads (MDR) : 460,000 km (14%)
 - Rural Roads (RR) : 2,650,000 km (80%)
 - **Carries 80% of passenger & 65% of freight traffic**
 - Passenger traffic growing at 12% p.a., while freight traffic growing at 15% p.a.
 - **NH, SH & MDR comprise 20% of network; carry 80% of traffic**

Urgent need to develop & improve road infrastructure to keep pace with India's growing economy



State highways: important network

- **Significant contributors to regional economy**
 - **Connect state capital, important towns, manufacturing centres and national highways**
 - **SH & MDR constitute 18% of road network; carry 40% of traffic**
- **Urgent need to improve SH & MDR to maintain balance between NH and SH & MDR development**

PPP is crucial for states to develop their road network



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Creating bankable PPP projects

- **Set up/ strengthen nodal agency for planning & implementation**
 - Capacity development of nodal agency
 - Adequate financial support to nodal agency for implementation
- **Develop integrated master plan for SH road network**
 - State master plan to be integrated with national plan
 - Identify & prioritize core road network development
 - Road links considered important for the economic & social development of the state to be prioritized

Set up / strengthen independent planning & implementation



Creating bankable PPP projects

- **Project development work to be comprehensive**
 - Detailed project reports: current & updated
 - Land acquisition to be done in time bound manner
 - Approvals for project development
 - Environmental clearance
 - Utility shifting/ Railways approval for rail over-bridge
- **Focus on viable project stretches in first stage**
 - Part of integrated master plan
 - Large size of packages for economies of scale
 - Connecting cities/tourist/commercial centres
 - Ring roads around large cities

*Viable project stretches & comprehensive project development
key for success of PPP*

Creating bankable PPP projects

- **Adopt NHAI's modified Concession Agreement (CA)**
 - **Ensure structured & equitable risk allocation**
 - **Bankable contractual arrangement**
 - **Long term concession period**
 - **80% land acquisition before signing CA**
 - **Grant upto 40% of TPC during construction period**
 - **Provision for substitution**
 - **Escrow arrangement**
 - **Toll rate growth to include a fixed component along with linkage to WPI variations**
 - **Provisions for non-competing facilities**

Creating bankable PPP projects

- **CA for highways is still evolving**
 - **Total Project Cost (TPC)**
 - Normally TPC estimates of Authority are lower than actual TPC, resulting in:
 - quoting of lower grant (max 40% of TPC)
 - capping of termination payments to lower TPC
 - **Termination Payments (TP)**
 - No TP for debt during construction period, owing to concessionaire event of default
 - **Dispute Resolution Mechanism (DRM)**
 - Need an efficient mechanism for early resolution

Bankable CA is must for development of PPP in SH



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Infrastructure lending by banks in India

- Banks are one of the largest financiers to infrastructure sector in India
- Infrastructure lending by banks
 - Grown from USD 2 bn in 2000 to USD 67 bn in 2009
 - CAGR of 43% in last nine years
- Bank finance to infrastructure sector as a % of total bank credit increased from 1.8% in FY 2001 to 10.2% in FY 2009
- Debt requirement of USD 257 bn in XI Five Year Plan to cross USD 500 bn in XII Five year plan

Urgent need to initiate steps for deepening bank credit






Deepening bank credit

- **Bank credit can increase with following measures**
 - **Permit banks to issue tax free infrastructure bonds**
 - **SLR / CRR exemption to infrastructure bonds**
 - **Priority sector classification for infra funding**
 - **Early operationalisation of takeout financing scheme**
 - **Permit banks to take 100% pledge of equity as security in infrastructure projects**
 - **Relax ECB restrictions on infrastructure funding**
 - **Pricing cap**
 - **Refinancing of existing loans**
 - **Allow Indian banks to provide guarantee for ECB**

While these measures will improve bank credit, bank funds need to be supplemented...



Other funding sources for infrastructure

- **Bonds**
 - Allow banks to provide guarantee for bonds
 - Reform the stamp duty structure for bonds 
- **Insurance & pension funds**
 - Liberalise investment guidelines for insurance & pension funds 
 - Allow investments in infra projects having investment grade ratings
- **Long term debt sources** 
 - Expedite the setting up of the long term debt fund for funding to infrastructure projects

These measures will help in augmenting funding to the sector



ICICI Bank in infrastructure financing

- **One of the oldest & largest players in infra financing**
 - **Integrated & innovative solutions across the entire capital structure**
 - **Equity**
 - **Subordinated debt/ mezzanine structures**
 - **Senior Debt**
 - **Rupee denominated**
 - **External commercial borrowings**
 - **Debentures, bonds**
 - **Letter of Credit / Bank Guarantee / Buyers Credit**
 - **Pre-bid advisory & pre-bid underwriting services**

Large balance sheet size of over USD 100 bn helped ICICI Bank lead arrange USD 30 bn debt in the infra space



ICICI Bank: infra financing credentials

Power	<ul style="list-style-type: none">○ First Indian bank to fund mega hydropower project○ Lead arranger for over 15,000 MW capacity in FY2010
Roads	<ul style="list-style-type: none">○ Pioneered financing of road-cum-real estate project○ Financed first project for modernizing state border check posts
Airport	<ul style="list-style-type: none">○ Financed first private greenfield international airport○ Largest private airport financing
Mining	<ul style="list-style-type: none">○ Financed first private sector mine developer-cum-operator in India
Logistics	<ul style="list-style-type: none">○ Financed first container train operator in India
Telecom	<ul style="list-style-type: none">○ Lead arranger for a number of telcos
Port	<ul style="list-style-type: none">○ Lead arranger for a number of container terminals & liquid port terminals



ICICI Bank: government advisory

Telecom

- Key role in preparation of New Telecom Policy
- Member of two subgroups, under the Group on Telecom and IT Convergence

Power

- Assisted Task Force for promoting private sector participation in power generation and distribution

Airport

- Lenders' perspective on viability of greenfield airport to Government of Andhra Pradesh

Roads

- Organised international roadshows with Ministry of Road Transport & Highways for attracting investments in road sector

Oil & Gas

- Assisted GoI in development of Hydrocarbon Vision 2025
- Led sub-group on refining and marketing



Illustrative deals in state road projects

 <p>76 km ring road in Ahmedabad, Gujarat Lead Arranger Rs. 4.05 bn</p> 	 <p>165 kms Yamuna Expressway, UP Lead Arranger Rs. 30.00 bn</p> 	 <p>30 km outer ring road in Chennai, TN Lead Arranger Rs. 7.17 bn</p> 	 <p>Border Check Post Project in Maharashtra Lead Arranger Rs. 11.41 bn</p> 
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- **Financing for state road projects aggregating Rs.120 bn lead arranged by ICICI Bank**

ICICI Bank's exposure in state road projects ~ Rs.50 bn



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- **Critical need to expand state roads network**
 - **PPP an important component of development plan**
- **Key requirements for successful PPP-based investment**
 - **Bankable PPP structure**
 - **Deepening existing sources of funding and creating new sources of long-term debt**
- **ICICI Bank: significant experience and expertise in road financing; committed to financing the growth of state highways**



Thank you



Suggestions to improve bond market

- **Allow banks to provide guarantee for Infra bonds**
 - Banks can leverage their project appraisal skills and provide guarantees to bond investors as credit enhancement
- **Reform Stamp Duty Rates on Corporate bonds**
 - Rates vary across all states: uniformity needed
 - Rates are ad-valorem: need to be linked to tenor of the bonds with an overall cap
- **Rationalise disclosure requirements, which are equivalent to those of an equity offering**
- **Ease investment mandates on insurance/pension funds/banks to hold bonds to maturity**



Insurance & pension funds

- **Regulations specify a minimum credit rating of AA for debt investments**
 - **Credit rating for infrastructure projects may be relaxed to investment grade**
- **Investments by Insurance funds permitted in co. paying min 4% dividend over 7 of last 9 years**
 - **Considering the gestation period required for infra projects, they may be exempted from dividend criterion**
- **Exposure to financial institutions to be 25% of investment assets**
 - **Investments in infrastructure bonds of banks & FIs may be exempted from this limit**



Proposed Infrastructure Debt Fund

- **Proposed Corpus – USD 11 bn**
- **Suggested Sponsors**
 - **IIFCL/SBI/ICICI/LIC/IDFC/UTI**
 - **IFC / ADB**
- **Refinancing upto 85% of outstanding senior debt post 1 year from COD**
- **PPP projects with termination clause in concession can only be considered for borrowing**
- **Instrument of lending ~Negotiable bonds**
- **Fund shall have seniority in repayment from termination proceeds**

