

# Financing of State Highways

## Financiers' Perspective

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**I D F C**

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Think IDFC.

# Structure of presentation



- National Highways - Key lessons
- State Highways - Key lessons
- IDFC and Road Financing



# NATIONAL HIGHWAYS - KEY LESSONS

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# National Highways- Projects so far



- Under the PPP framework, NHAI has awarded projects to private parties on Build, Operate, Transfer (BOT) basis
  - BOT - Direct Toll and Annuity
  - More than 80 projects awarded till date (both direct tolling and annuity) out of over 200 projects identified by NHAI
  - Investment Requirements (total project cost) mostly in the range of Rs. 2 - 5 billion (USD 48 - 121 million)
  - Length of stretches range from 25-140 km

# NHDP - a snapshot



<b>NHDP Phase</b>	<b>Particulars</b>	<b>Length (in Kms)</b>	<b>Indicative cost (Rs Billion)</b>
<b>NHDP I &amp; II (Dec 2009)</b>	<b>Balance work of GQ and ES-NS</b>	<b>8,474</b>	<b>524.34</b>
<b>NHDP III (Dec 2012)</b>	<b>4-Laning (DT)</b>	<b>10,000</b>	<b>651.96</b>
<b>NHDP IV (Dec 2015)</b>	<b>2-Laning (DT/ Annuity)</b>	<b>20,000</b>	<b>278.00</b>
<b>NHDP V (Dec 2012)</b>	<b>6-laning of selected stretches (DT)</b>	<b>6,500</b>	<b>412.10</b>
<b>NHDP VI (Dec 2015)</b>	<b>Development of Expressway (DT)</b>	<b>1,000</b>	<b>166.80</b>
<b>NHDP VII (Dec 2014)</b>	<b>Ring Roads, Bypasses, Grade Separators, service roads etc</b>	<b>NA</b>	<b>166.80</b>
<b>Total</b>		<b>45,974</b>	<b>2,200.00</b>

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# NHDP- Key Lessons -1



- Development of a clear strategy (NHDP) and action plan for completion with milestones well defined
  - Outlay of Rs.2200 bn in seven phases stretching upto 2014-15.
  
- Well defined and a transparent and a competitive bidding process
  - Bidding process - single stage OR two stage (RFQ and RFP)
  - Technical/Financial qualification credentials required for qualification clearly spelt out
  - Bid Parameter - Simple, transparent and objective
    - ❖ For BOT (Direct Toll)- Grant to be paid by NHAI/Negative Grant from investor to NHAI
    - ❖ For BOT (Annuity) - Annuity Amount (to be paid semiannually by NHAI)

# NHDP- Key Lessons -2



- Dynamic Project Development:
  - DPR with detailed design specifications, schedules (technical & non technical), were as a rule provided as part of bidding documents
  - NHAI is also selectively encouraging shift to DBFO (Design, Build, Finance, Operate) models of BOT (as the market matures) in which bidders are encouraged to have freedom and innovation in design while remaining accountable for performance.
- Efficient and bankable contractual framework
  - Clear allocation of risks to stakeholders- equitable and efficient concession framework
  - State Support Agreement in place
- Longer experience and upward movement on the learning curve by all the stakeholders in the spirit of Public Private Partnership
  - Concession framework refined by Planning Commission taking into account the experience so far
    - ❖ Concession period to be dynamic depending upon traffic build up and Project Scope (no of lanes)
    - ❖ Shift from a fixed nominal fee of Re.1 for all projects to revenue sharing for non grant seeking viable projects

# NHDP- Key Lessons-3



- Ensuring reliable and predictable Revenue stream for the investor
  - Clear definition of grant /annuity payable/receivable by the investor
  - Credit enhancement of the paying authority (NHAI)
    - Dedicated Central Road Fund is built by cess levied on fuel consumption by road users. NHAI has access to the same.
    - Satisfactory credit rating of NHAI obligations



# STATE HIGHWAYS - KEY LESSONS

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# State Highways - An overview



- State government departments/ state-owned road companies develop the large network of state highways and other roads through construction/BOT contracts
- States active in BOT projects are Maharashtra, MP, Gujarat, Punjab, Haryana, Rajasthan, Kerala & Karnataka
- BOT Toll projects are eligible for viability gap support from the Central government

# State Highways - Financiers' Perspective



- Unlike Concessions of NHAI which have been standardised, Concessions differ from state to state, from project to project
  - Concession periods, base tariff and escalation indices, grant disbursement schedule, termination compensations differ from state to state, from project to project
  
- Lenders are more project conscious (than in NH) in State Highways
  - Lack of uniform contractual framework- termination payments not equitable in all states and concessions still resemble non BOT contracts of the past
  - Risks of roll back of contracted tariff revisions
  - Clauses permitting suo motto termination of the concession and often without equitable compensation
  - Traffic density not high as in NHs
  - Credit quality of the government agencies

# State Highways - Financiers' Perspective



Yet, certain comfort factors have evolved thanks to the pro active measures by the Committee on Infrastructure and state governments:

- A Model Concession Agreement for state highways has been developed by the Planning Commission
  
- Increasing willingness of States to change
  - Shifting to federal concession framework- Expected to set a level playing field and enhance interest from the investors and bankers like NH projects
  - Enhancing comfort of bankers and investors- earmarking road funds
  - Toll rate determination in consultation with the end users
  - Involving local administration in identifying project location and in land acquisition
  
- Funding from Centre to States through the Scheme for Financial Support for PPP projects
  - Would enhance viability for the investors and bankability



# IDFC AND ROAD FINANCING

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# IDFC- a profile



- Set up with a mandate to lead private capital to commercially viable infrastructure projects
- Verticals of focus - Energy, Telecom, Transportation, Commercial & Industrial (industrial parks and SEZs) and tourism
- Focus on complete financing - debt, proprietary equity and manager of equity funds (private, project and listed), innovative products including subordinated debt structures, risk participation, take out financing besides Investment Banking and Advisory Services
- Balance Sheet size of over US \$ 4 billion

# IDFC in Roads Sector



- IDFC is the market leader in financing of private sector road projects
- Road sector is always a key area of focus for IDFC
  - Over 45 deals approved and 34 disbursed since inception
  - Exposure to roads -US \$ 575 million;
- End-to-end financing solutions for private road projects
  - Equity, mezzanine and debt capital
  - Debt underwriting and syndication
  - Equity syndication
  - Corporate advisory services, agency services
- IDFC is
  - A financial powerhouse with demonstrated intellectual franchise
  - Competitively positioned to partner investors in emerging opportunities
  - Equipped to offer customized solutions and create enduring value

# Select Deals by IDFC



Project	Type	Cost (Rs bn)	Roles played by IDFC
Jaipur-Kishangarh	Toll	6.15	Financial advisor, Underwriter, Arranger & Lead bank, Mezzanine investor
Meerut Muzzafarnagar	Toll	5.34	Arranger, Lenders' Agent, Senior and Sub-debt lender
Salem Kumarpalayam	Toll	5.00	Arranger & Lead Bank, Senior and Sub-debt lender
MEP Toll Road	Toll	4.30	Major lender
Kumarpalayam Chengapalli	Toll	4.20	Arranger, Senior and Sub-debt lender
Delhi Noida <sup>1</sup>	Toll	4.08	Take-out financier
Jadcherla Kotakotta	Toll	3.70	Arranger, Senior and Sub-debt lender
Bangalore – Maddur	Toll	2.50	Underwriter, Arranger & Lead bank
Salem Namakkal	Toll	2.50	Underwriter & Arranger, Senior and Sub-debt lender
Indore - Edilabad	Toll	1.65	Lead bank, securitisation debt lender
Narmada Bridge	Toll	1.50	Lead bank, take-out financier
Moradabad bypass	Toll	1.03	Lead Bank
Jhansi Lalitpur	Annuity	7.37	Co-developer, Arranger, Senior and Sub-debt lender
Panagarh-Palsit	Annuity	5.25	Appraising institution, Lead Bank
Durgapur Bypass	Annuity	4.00	Appraising institution, Lead bank

<sup>1</sup> For the bond issue which was used to partly fund the construction cost