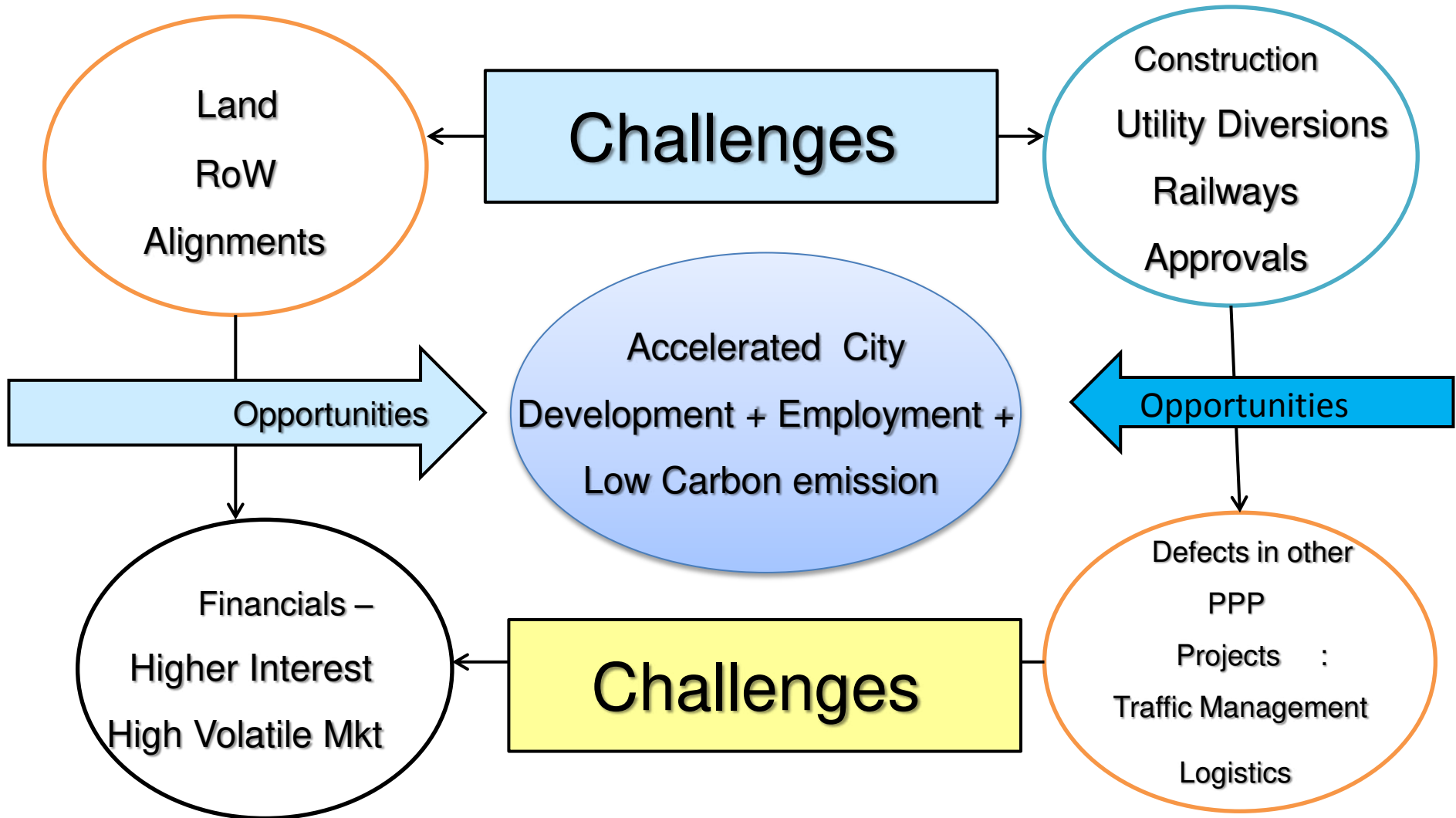


## Fund Raising for Urban Infrastructure Projects

### Case Study – Metro Rail

# SWOT – a PPP project.



**Largest Metro Project in the world in PPP format**

**Engineering Project of the Year 2013 Award by Global Infrastructure Forum in New York**



## Hyderabad Metro Rail Project



7/23/2013

July 8, 2013

- ✓ Largest Metro Project in the world to be developed in PPP format
- ✓ Largest Single Urban Development Project in India
- ✓ Largest Investment made by L&T in one single City next to Power.
- ✓ First Integrated Metro + Transit Oriented Development Project – Seamless Commuting a Reality
- ✓ Shortest Construction period for 72 km stretch – 5 years
- ✓ First Communication Based Train Control (CBTC) system to be used in India
- ✓ State-of-the-Art Rolling Stock with high Regeneration of Power
- ✓ Largest Precast yards in India > 14000 + 14000 segments
- ✓ FC achieved with 10 PSU banks without their help of syndication within 180 days of signing CA  
– First time in Indian History of PPP projects
- ✓ Project sailed through successfully an intensive DD after 15months of FC date at the instruction of RBI to avoid restructuring of loan sanctioned by PSU banks
- ✓ Credit rating by FITCH under construction stage → BBB+ - outlook stable.



# Challenges in Funding

It is expected that funds to the tune of 1Trillion US\$ would be required for Infrastructure Sector Funding in next five years, out of which 50 % would come from private sector through PPP model.

This initiative should be a reality and needs momentum and speed so that PPP project developers will have quick access to this fund on a long term basis for a separate credit dispensation and can avoid refinancing route .

## Inherent challenges

- Long project duration, consequently need for a long loan tenor
- Equity Finance –
  - Shallow Capital Market
  - Weakness in Corporate Governance
  - No exit option
  - Being non recourse funding , Promoters hesitate to take additional risks and cost overrun support.
  - Non availability of strategic partners

## Inherent challenges

### Raising Mezzanine financing :

- Raising Mezzanine Financing which is critical in Infra Projects in developed countries is also limited in India.
- Interest rate caps pose a constraint to attracting ECBs, but an even greater constraint in utilizing foreign currency loans is the lack of a sufficiently deep forwards market in foreign exchange.

# Inherent challenges

Underdeveloped debt/bond markets :

- The lack of size and depth in India's corporate bond market is associated partly with
  - the lack of depth in the government bond market and the absence of a yield curve for government bonds which could serve as a benchmark for corporate bond.

Beyond that, corporate debt markets are constrained by cumbersome

1. Primary issuance guidelines;
2. Inadequate credit information;
3. Inefficient clearing and settlement mechanisms;
4. Poor and lengthy enforcement laws relating to default proceedings;

## Inherent challenges

Beyond that, corporate debt markets are constrained by cumbersome :

5. Inefficiencies arising from weaknesses in regulation, including poor coordination among the various agencies involved in corporate debt market regulation;
6. And the absence of long term investors

# Inherent challenges

## Dedicated Urban Transport Fund

- Dedicated Urban Transport Fund at State level and Central Govt.level is the need of the hour .
- The trend in the past has been to rely mainly on the budgetary support of Central Government and the State Government as well as loans from multilateral /financial institutions.
- However, the resources through budget are highly limited and cannot be concentrated in few cities alone. The National Urban Transport Policy mentions that the support from GOI would be contingent upon States to tap these innovative financing Mechanisms.

# Inherent challenges

## Infrastructure Debt Funds

- It is a welcoming move IDF is being structured as a non- banking finance Company (NBFC) .
- This scope will also attract foreign institutionalized investors in the debt part of the fund.
- Setting up of Infrastructure Debt Fund through public private partnership would meet the long term need of infrastructure sector funding and would be a guiding principle for our future activities.

## Govt funded Vs. Private Players – Projects

- Government-funded Infra projects receive sops like tax exemptions, interest-free subordinate loans from the government, soft loans from multi-lateral agencies, government guarantees etc. Private players' projects are at an inherent disadvantage in the absence of these sops
- Public-funded Infra projects are better placed to raise long-tenure loans at low costs from multi-lateral agencies
- High cost loans raised by private sector increase project cost and payback period

# Possible Solutions

- Enactment of Infrastructure friendly lending policies of banks – a separate credit dispensation to consider rate cuts for sectors like Metro Rail, Roads, Ports and delink present policy rate from the current credit policy dispensation. Infrastructure projects require long term debts.
- There is a need to make the interest that banks are earning on debt to be made tax free so that the interest rates could be further reduced. This was available earlier under Income Tax Section 10(23)(g), the same needs to be reinstated at the earliest.
- Fast track service branches specially for large infrastructure projects
- Cost overruns and the associated financial implications on account of Govt delays shall be to the account of Govt and be delinked from project cost
- Encouragement of bond markets with incentives under Income Tax Act
- Investor friendly ECB policies
- Infrastructure Development Funds, the latest innovation in the financing space is yet to reach the sectors across.
- Early Infusion of VGF to compact the interest during construction

- Enactment of Infrastructure friendly lending policies of banks – a separate credit dispensation to consider rate cuts for sectors like Metro Rail, Roads, Ports and delink present policy rate from the current credit policy dispensation. Infrastructure projects require long term debts.
- Encourage participation by pension funds and insurance companies. GOI should make investment policies and regulatory guidelines of the Insurance Companies and pension funds more conducive and flexible toward investing in the infrastructure.
- Stimulating PE investments in Infrastructure

Thank You

