Project Finance

Topics

- Introduction to Project Finance
- Project Financing Process
- Debt Syndication
- Role of DFIs in Project Finance
- Recent Developments in Project Finance

Characteristics of Project Financing

- Creation of Separate Entity
- Equity Holding Pattern
- Non recourse debt
- Leverage
- Contractual Structure

Accepted Project Finance Structures in India

- Public private partnerships Finance model & General Structures
- Take-out Finance
- Bond Finance
- Securitization
- Viability gap funding
- Infrastructure SPV

Public private partnerships Finance model & General Structures

- Build Own and Operate (BOO)- No obligation to transfer- Bengaluru International Airport Limited
- Build Own and Transfer (BOT)- Projects under National Highway Development Program
- Build Own Operate and Transfer (BOOT)
- Build Operate and Renewal of concession (BOR)
- Build Lease/Rent and Transfer (BLT/BRT)
- Build and Transfer (BT)
- Build Transfer and Operate (BTO)
- Design Building Finance and Operate (DBFO)
- Design Construct Manage and Finance (DCMF)
- Modernize Own/Operate and Transfer (MOT)
- Rehabilitate Own and Transfer (ROT)
- Rehabilitate Own and Operate (ROO)

Methods of Project Financing

- Share capital- Equity capital and preference capital
- Term Loan
- Debenture Capital
- Commercial Banks
- Bills Discounting
- Seed capital

Project Financing Process

- For whom it is important to understand project finance?
  - Financial Managers
  - Sponsors
  - Lenders
  - Consultants and practitioners
  - Project Managers
  - Builders
  - Suppliers
  - Engineers
  - Researchers
  - Students

Some technical terms

- Full recourse Loan
- Non Recourse Loan
- Limited recourse loan

Project Financing participants and agreements

- Sponsor/Developer
- Additional Equity Investors
- Construction Contractor
- Operator
- Feedstock suppliers
- Product off taker
- Lender

Advantages of Project Financing

- Non-recourse
- Maximize Leverage
- Off-balance sheet treatment
- Maximize tax benefit

Disadvantages of Project Financing

- The process is extremely complex
- It may take much longer period of time to structure, negotiate and document a project financing than a traditional financing
- Legal fees and related costs with a project financing can be very high
- Cost of capital may be more when compared with traditional financing because of the risks assumed by the lenders may be greater in a non-recourse project financing than in a more traditional financing

Stages in Project Financing

Process	Stage
Project Identification	Pre-Financing Stage
Risk Identification & Minimizing	
Technical and Financial Feasibility	
Equity Arrangement	Financing Stage
Negotiation and syndication	
Commitments and documentation	
Disbursement	
Monitoring and review	Post Financing Stage
Financial Closure/Project Closure	
Repayments & Subsequent monitoring	

Preparation of Project Report

- Project Report must include
  - Technical Feasibility
  - Managerial Competence
  - Commercial Viability
  - Financial Viability
  - Environmental , Political and Economic Viability

Financial Viability

- Cost of the project
- Means of the finance
- Security coverage and promoters contribution
- Profitability analysis
- Projected balance sheet, P&L account and projected cash flow
- Break-even point
- Debt service coverage ratio (DSCR)
- Sensitivity Analysis
- Internal rate of return

Project Appraisal

- Technical Appraisal
- Commercial/Market Appraisal
- Economic Appraisal
- Management Appraisal
- Financial Appraisal

Sources for financing fixed assets

- Cost share financing or low interest financing
- Debt Financing
- Equity Financing

Sources for financing fixed assets

- Term loan
  - Rupee loan
  - Foreign currency term loan
- Deferred payment guarantee (DPG)
- Soft Loan
- Supplier's line of credit
- Buyer's credit
- Debentures
- Leasing
- Public deposits
- Own Fund
  - Equity
  - Preference share
  - Retained Earnings
  - Unsecured Loans
- Bridge Loans
- Seed Capital
- Government Subsidies

Debt Syndication

- Definition
- Benefits
- Effect on the Market
- The current situation
- Alternate Debt financing options
- Need for debt syndication
- Debt syndication categories
- Why go for Debt syndication?
- Using debt syndication to expand corporate debt market in India

Role of Development Finance Institutions in Project Finance

- Role of DFIs in Indian Economy
- Evolution of DFIs in India
- Declining role of DFIs post liberalization
- Universal banking replacing DFIs in India
- The role of development financial institutions in the new millennium
- Development financial institutions remain relevant
- Views towards national DFIs have evolved over the years
- Financial sustainability and good governance are critical elements for the success of DFIs

Recent developments in Project Financing in India

- The rise of renewable energy
- The project bond market
- Liquefied Natural Gas

Thank You