

**Project Finance**

**Project Finance is the financing of**

* often long-term, industrial projects
* Increasingly those which provide public services or infrastructure
* Based upon complex financial and contractual structures commonly involving

many legal entities

**Project Finance debt is often termed as "non-recourse"**

* Typically secured by the project assets and the core project contracts

**The cash flows from the project**

* Come only after the project is fully complete (takes more than a single

financial year for completion)

* are usually the sole means of repayment of the borrowed funds

**Separate Entity and SPV Status**

* Risk of the transaction is generally measured by the creditworthiness of the

project itself rather than that of its owners (Sponsors)

**Two main types of Project Financing**

* Greenfield – a fresh start
* Brownfield – expansion of an existing project

**Multiple parties involved**

#### Sponsors

* Contractors
* Suppliers
* Governments
* Global financiers

**From the inception of an idea to Financial Close, a Project Finance deal**

**can take years to negotiate**

**All about identifying risks, allocating them appropriately, and ensuring that the responsible parties are adequately incentivized to manage their risks efficiently**

#### Construction time, costs & specification

* Operational cost, reliability
* Supply reliability, quality, cost
* Off-take volume, price
* Political environment, war, local hostility, currency inconvertibility
* Socio-environmental responsibilities
* Funding Risk
  + Identification of sources for equity contribution.
  + Stipulation for minimum upfront equity contribution.
  + Disbursement only after financial tie-up for the project.

#### Regulatory Risk

* + All major statutory approvals including MoEF and forest clearance

stipulated as a pre - disbursement condition

* + Concession agreement is reviewed commercially, and risks are identified
  + Suitable undertakings/guarantees are obtained from sponsors to negate

any adverse effect of concession provisions

* + Financing of projects on time-tested concession formats approved by

the Planning Commission

#### Land Acquisition Risk

* + Minimum land acquisition stipulated as a pre-disbursement clause
  + Projects in sensitive states avoided
  + Land acquisition is the responsibility of the Concession Authority
  + Compensation is paid by the authority on account of any adverse delay

### Market Risk

* + Independent consultant appointed by Lenders to conduct market

potential/ traffic study

* + Project funding is structured based on cashflow projections to ensure

smooth Debt servicing

### Execution Risk

* + Contracts for Civil works/Procurement of equipment on a fixed time

fixed price basis

* + Contracts to be finalized before any disbursement
  + Reputation of EPC contractor considered
  + Suitable provisions for Liquidated damage/ penalty are incorporated

in contract documents

### Technology Risk

* + Projects based on proven technology are financed
  + Recourse stipulated in case of emerging technologies

### Implicit Political Risk

* + Policy Risk: Change in policies towards infrastructure like tax sops,

concession agreements, grant policies

* + Revenue/Toll Rate Risk: Change in toll rates
  + Regime Change Risk
  + Change in Applicable Laws / Tax Laws
  + Cross Border Governing Law Enforcement Risk
  + Concession Agreements / Licenses govern all aspects of projects under

a contract-based system and governments honor signed contracts

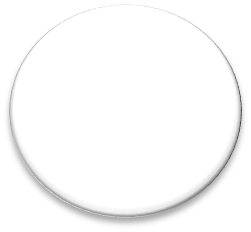
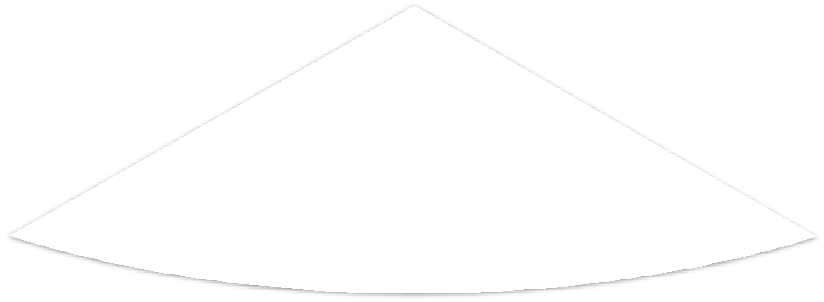
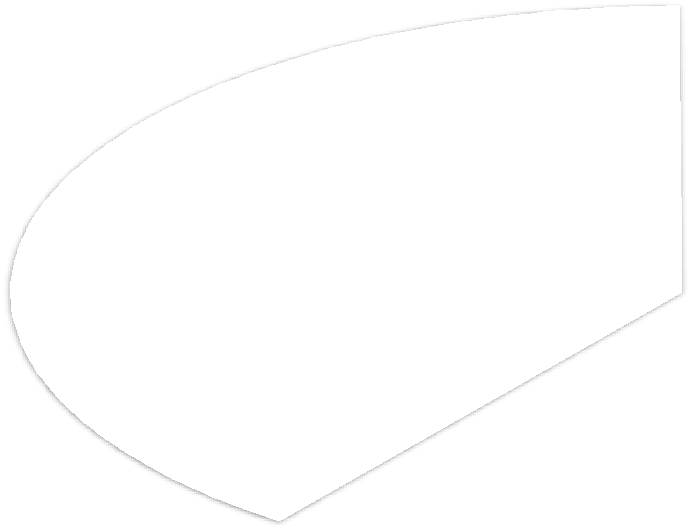
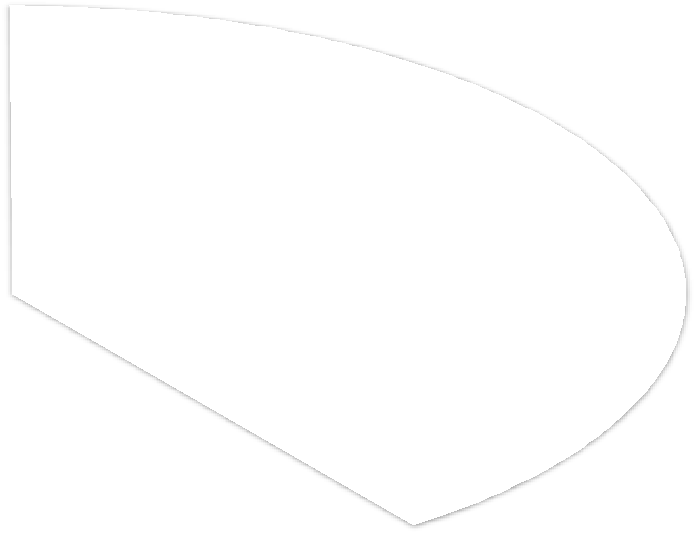
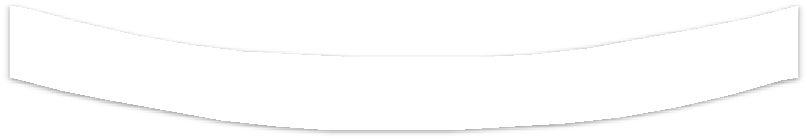
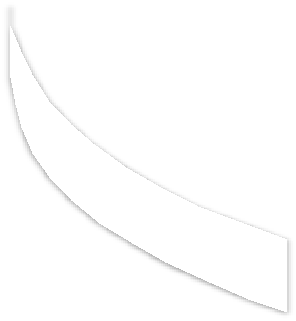
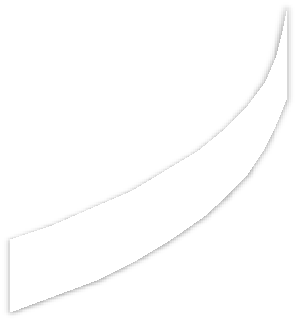
### Explicit Political Risks

* + Most concession agreements / licenses have clear provisions classifying

political risks into 2 categories: Direct Political and Indirect Political

* + Mitigation mechanisms including compensation are specified in the

agreement itself



**SPONSORS**

**INSURERS**

**HOST GOVERNMENT**

**LENDERS**

**EXPERTS PROFESSIONALS**

**SPV**

**EPC CONTRACTOR**

**GUARANTORS**

**OPERATOR**

**PURCHASER**

**SUPPLIER**

Text

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Thank You!