Smart City
MISSION TRANSFORM-NATION

SMART CITY MISSION
MINISTRY OF URBAN DEVELOPMENT
GOVERNMENT OF INDIA

Financing Strategy

November 2016

AGENDA FOR PRESENTATION

Brief Introduction – Smart City Mission

Objective

- Promote cities that provide core infrastructure and give a decent quality of life to its citizens, a clean and sustainable environment and application of 'Smart' Solutions

Key Features

- Urban renewal and retrofitting program by the Government of India
- GoI is targeting 98 cities all over the country under this mission
- 20 cities initially shortlisted for implementation and development (First Phase) and subsequently 13 more identified (Second Phase)
- MoUD is responsible for implementing the mission in collaboration with the state governments
- SPVs shall be created at the city level for the implementation of this mission
- SPV will be responsible for all aspects of development of projects
- State/Union Territory and the Urban Local Body ("ULB") will be the promoters having ~50:50 equity shareholding in the SPVs created

Proposed Financing – Smart City Mission

The total capital cost of the proposed projects in 33 identified smart cities is estimated to be Rs. 78,200 Crore which is proposed to be funded by way of :

i) Rs. 33000 Cr through Central Government and respective state governments in a ratio of 1:1

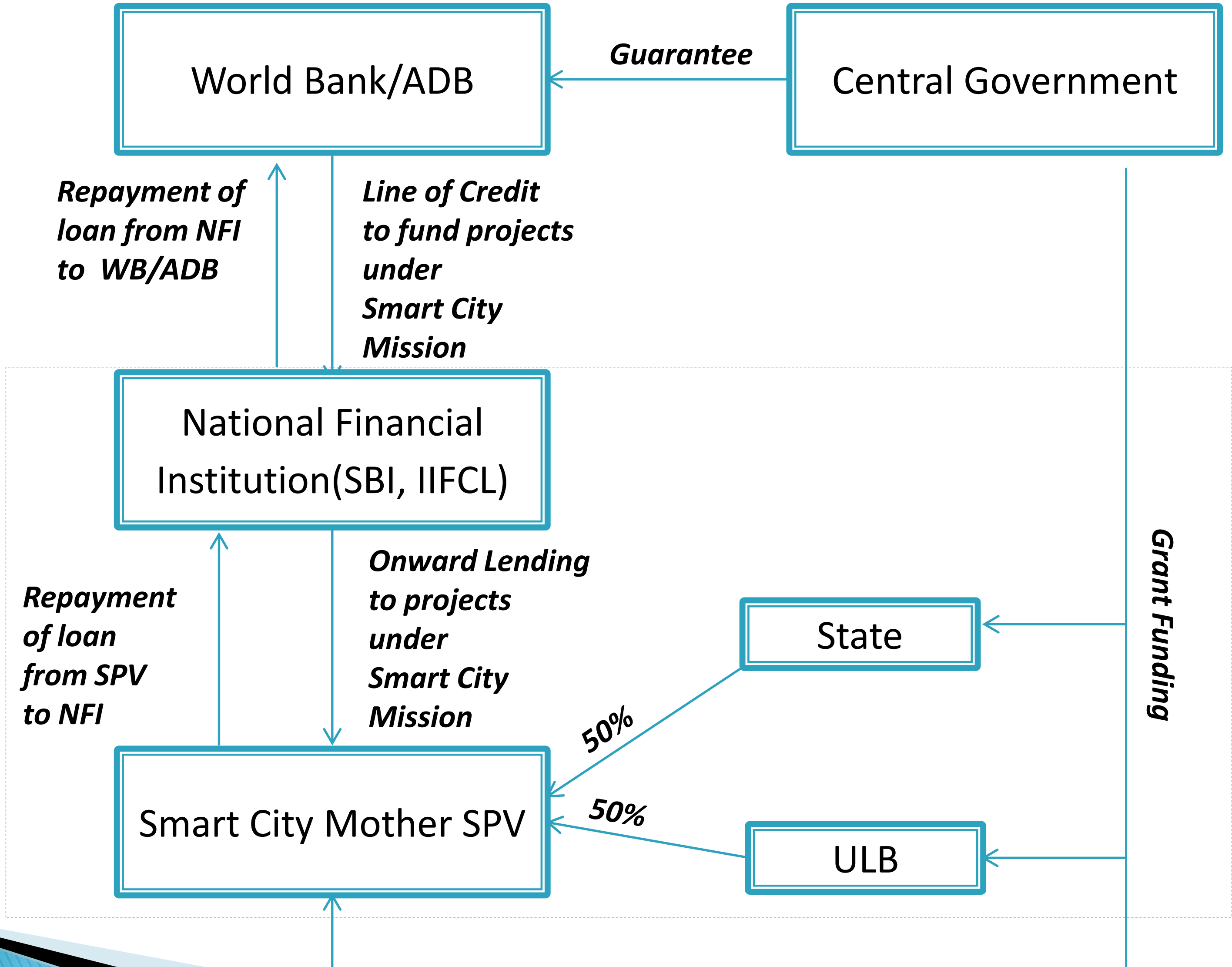
- Rs 500 Cr (Rs 100 Cr per city in annual tranches for 5 years by GoI)
- Rs 500 Cr (Rs 100 Cr per city in annual tranches for 5 years by State/ULB)

ii) Approximately Rs. 6700 Cr (USD 1.0 billion) through ADB and WB as line of credit to 2 National Financial Institutions (NFIs) :SBI and IIFCL

iii) Balance Rs. 38500 Cr will have to be mobilized by respective identified smart cities from variety of sources including land monetization, market borrowing, raising debt, private sector investments etc.

- For raising of debt/ availing line of credit through NFIs, the identified projects selected by Smart City SPVs have to be financially viable and have a cash flow ring fencing mechanism.

Proposed Financing – Layout



Salient Aspects of Project Finance (1/3)

Under Project financing, Financially viable projects are funded under a SPV structure and the Capital raised to fund the same is paid back primarily from the cash flow generated by the project

Identification of Project	• An financially viable project on a standalone level, along with the assets, is identified and earmarked
Classification of Project	• Project will be classified either as infra or non-infra project. • The sectors considered under Infra financing include, Transport, Power, Urban-Infra, Oil & Gas, steel etc. • Infra Projects qualify for higher tenor of loans.
Ring Fencing of Projects	• Risk identified and allocated to specific asset/SPV with proper mitigants in place • Security structure to be duly earmarked as per the project identified
Financial Closure	• Specific Commercial Operation Date (COD) needs to be fixed on the basis of project implementation schedule • Under project financing the financing plan for a specified project can be frozen upfront with the required availability period • The Capex requirement is segregated into projects/sub-projects and the financial closure of each such project is attained prior to initial drawdown

Salient Aspects of Project Finance (2/3)

Key Financing Highlights of Project Financing:

Loan Period (construction + moratorium + repayment period)	• Loan Period to be decided in line with the project cash flows • Loan Period may extend up-to 20-22 years (Max upto 80% of the economic life of asset/ concession period of the project) • Moratorium period may extend up-to 3-4 years including construction period
Bank Exposure	• To be in-line with the risk perception and viability of the project • Higher Debt : Equity say 70:30 considered in infra against typically 60:40 in non-infra space
Relaxation During Construction Period	• A customised availability cum moratorium period to be fixed • Interest during construction period to be capitalised
Financial Covenant	• Financial Covenants are specified to monitor the performance of the project viability • To be based on conservative estimation of the Project parameters.
Appointment of Consultants	• LIA • LIE and other sector consultants/Project Monitoring Committee • LLC

Salient Aspects of Project Finance (3/3)

Key Financing Highlights of Project Financing (Contd.) :

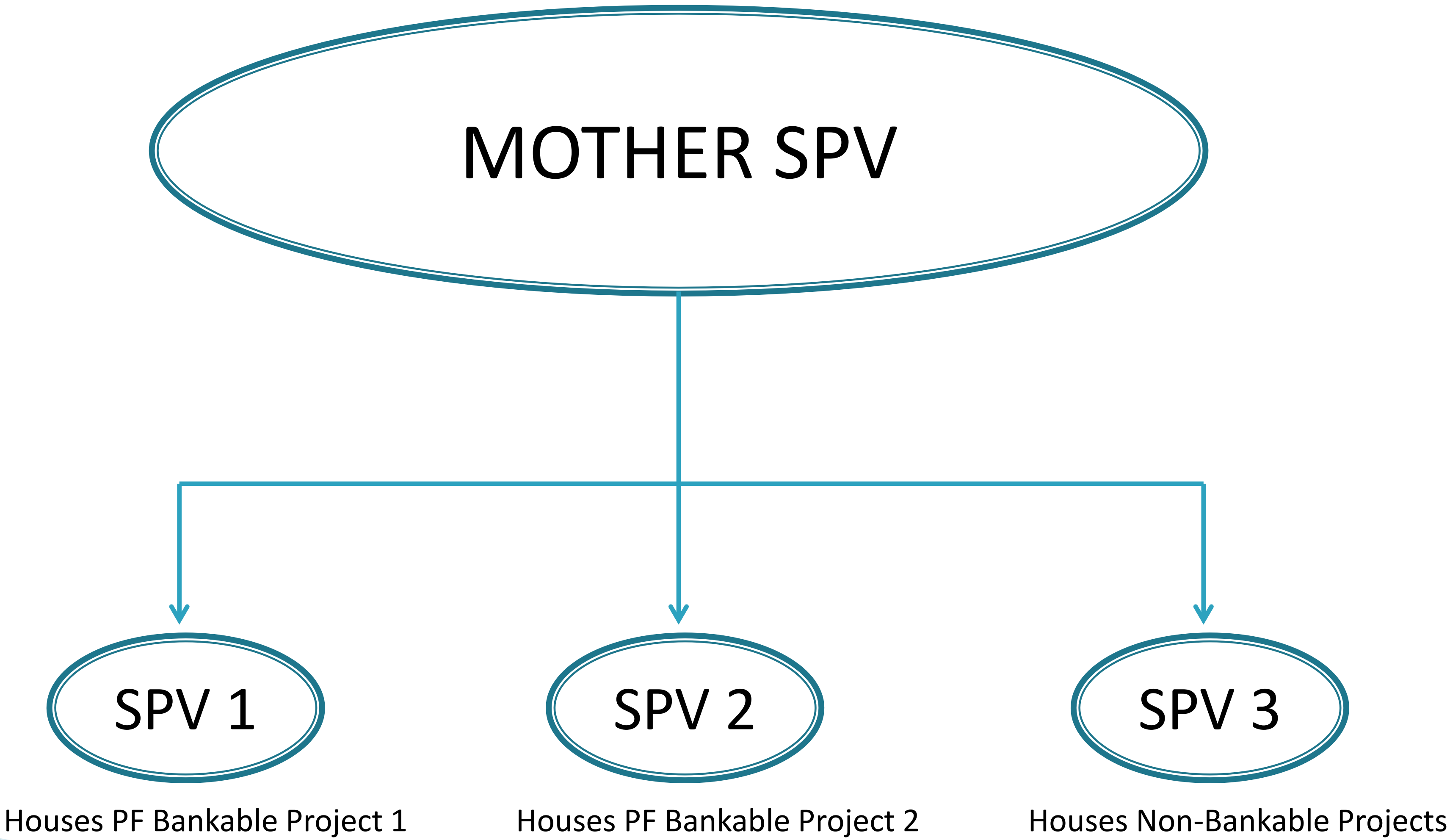
Security	• Primary security would typically include assets of the proposed Project/Concession Agreements • Escrowing of Project cash flows / Receivables • Assignment of all major contracts • DSRA • Political Risk Insurance
Approvals/ Risks	• All the approvals need to be in place as required for specific projects
Procurement	• As per the norms of Multilateral agencies (World Bank/ADB)
Safeguards	• As per the norms of Multilateral agencies (World Bank/ADB)

Disclaimer: *The Salient aspects of project finance have been noted above, considering the financing requirements of Banks. Lenders typically fund projects, which qualify under Project Finance and are also Bankable*

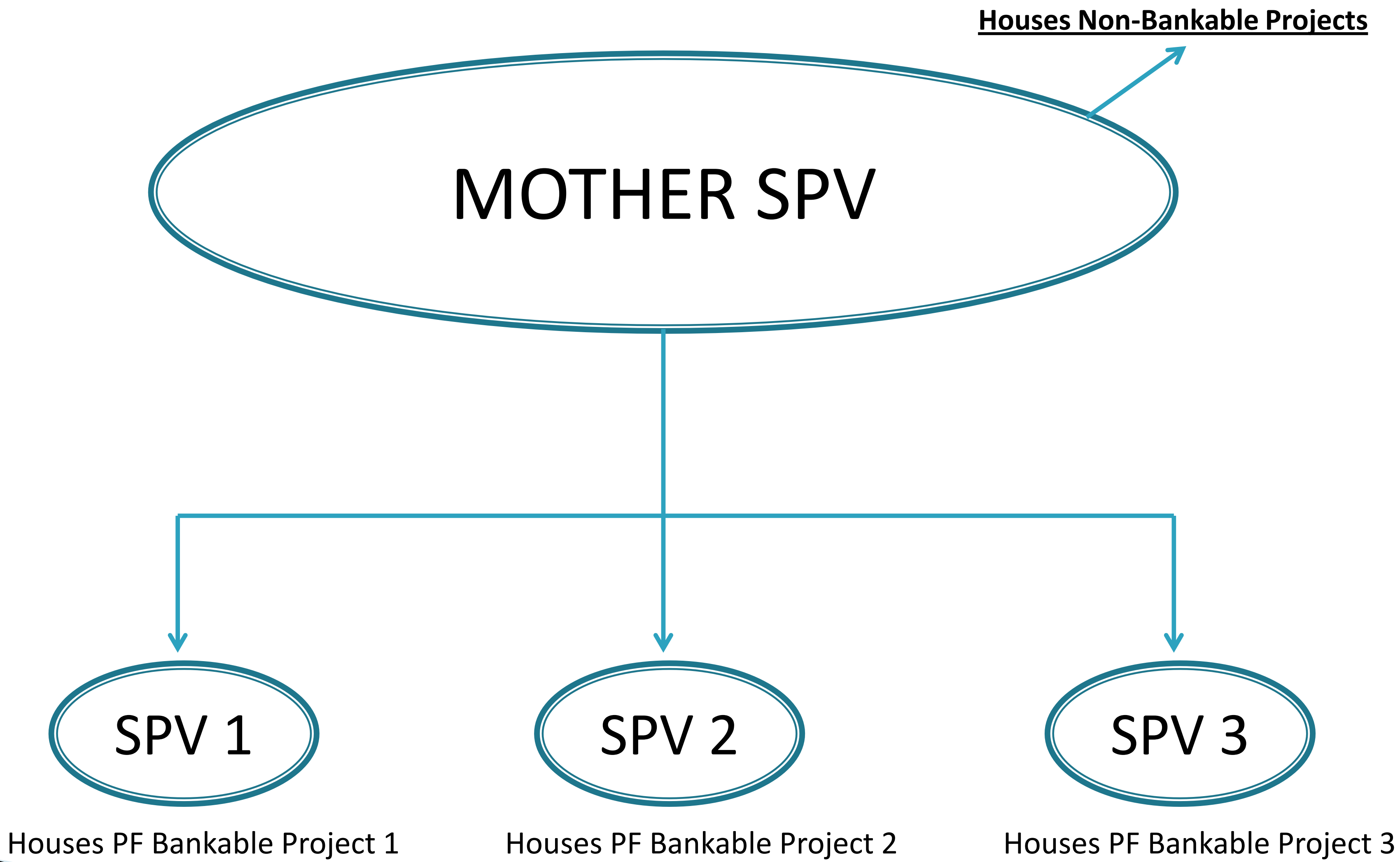
Proposed Funding Structure

- Under project financing bankable projects can be separated from non-bankable projects and the same can be funded under a SPV structure and the capital raised is paid back primarily from the cash flow generated by the project
- Funding of Smart Cities under Project financing would require;
  - A sound corporate governance structure of the project SPV's in line with Company's ACT 2013
  - All the related party transactions to be at ARM's Length
  - External Rating of ULB (desirable)
  - Expertise of contractor
  - Full equity tie-up, with upfront equity Infusion (atleast 30 % of the Equity) into the earmarked project SPV's
  - A detailed financial viability report based on inputs from DPR/TEV report
  - Financial Closure to be achieved before project start.
    - Lenders may not be able to recognise/reimburse the already spent;
    - The procurement/process validation in compliance of multi-laterals may be an issue
  - SPV/PMC could engage services of professional agencies such as SBI Caps for financial viability report, Loan tie-up, documentation etc. for accessing the loan
- Other key alternate financing options, which can be considered by the ULB's also include, municipal bonds, Public Private Partnership etc.

SPV Creation (Option 1)



SPV Creation (Option 2)



Proposed Implementation Strategy (1/2)

Classification of Projects

- Various projects as identified by an SPV needs to be classified into Infra & Non-Infra projects
- Further, the projects needs to be classified into Bankable and Non-Bankable projects

Revenue Sources

- Revenue Sources such as user fees (other than taxes) from each SPV needs to be identified
- Annuity from ULB/State Govt

Security

- Security available for the projects shall include the assets of the project

Proposed Implementation Strategy (2/2)

Financial Closure

- Each viable SPV need to tie-up funds
  - Equity from State/ULBs,
  - Grant from GoI and
  - Debt from NFIs

Tenor of the Funding

- Tenor for a project needs to be in line with project cash flows

Debt/Equity (D/E) Ratio

- D/E ratio for any infra project may be taken as 70:30
- D/E for a non-infra project may be taken as 60:40
- Finalised based on the Cash Flow & Financial Viability of the Project

Critical Ratios for Lenders

Ratio	Benchmark Value	Calculation	Significance
Debt Service Coverage Ratio (DSCR)	1.50 - 1.75	Operating Cash Flows/Total Debt Obligation	Measures ability of the project cash flows to service debt obligations (Interest + Principal)
Project Internal Rate of Return (PIRR)	12% - 14%	Discount rate for which the NPV of project cash flows is zero	Measures the return from the project
Fixed Asset Coverage Ratio (FACR)	>= 1.25	Total Fixed Assets/ Total Debt	Measures ability of the project's tangible assets to cover the debt obligations
Interest Coverage Ratio (ICR)	~3.00	EBITDA/Interest Cost	Measures ability of the project's operating profit to cover interest obligations

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Synopsis of Debt Funding Options

Parameters	RTL	ECB	ECA	MLA*	Bonds
Sources	Domestic Commercial Banks and FIs	Foreign Branches of Domestic Banks, Foreign Banks	K-Exim, US-Exim, JBIC, Hermes Germany etc.	World Bank & Asian Development Bank (ADB)	Domestic and Foreign FIs & Insurance Companies
Tenor (in years)	10-20	7-10	10 - 20	10 - 20	5 – 7
Availability	High	Medium	Low	Low	Low
Pricing Benchmark	MCLR	LIBOR	LIBOR/CIRR	LIBOR	Fixed
FX risk	Low	HIgh	HIgh	HIgh	Low
Interest rate risk	Yes	Yes	Yes	Yes	No
Drawl Flexibility	Yes	Limited	Limited	Limited	Nil
Prepayment flexibility	Limited	Yes	Limited	Limited	Limited
Upfront Fees/ Commitment Charges	Low	High	Medium	Medium	Nil

*usually follow the on-lending mechanism i.e. funding through NFIs

THANK YOU