Financing Public Private Partnerships

The Indian Story

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PRIVATE & CONFIDENTIAL

At The Heart of The Matter

- ***No Financing Innovation Will Work If The Project Is Fundamentally Poorly Structured And The Environment Is Hostile.***

- ***A Bankable Project is the Chicken in the Chicken Curry in India and Pork in Pork Fried Rice in China.***

- ***Appropriate structuring and risk sharing is at the heart of bankable projects.***

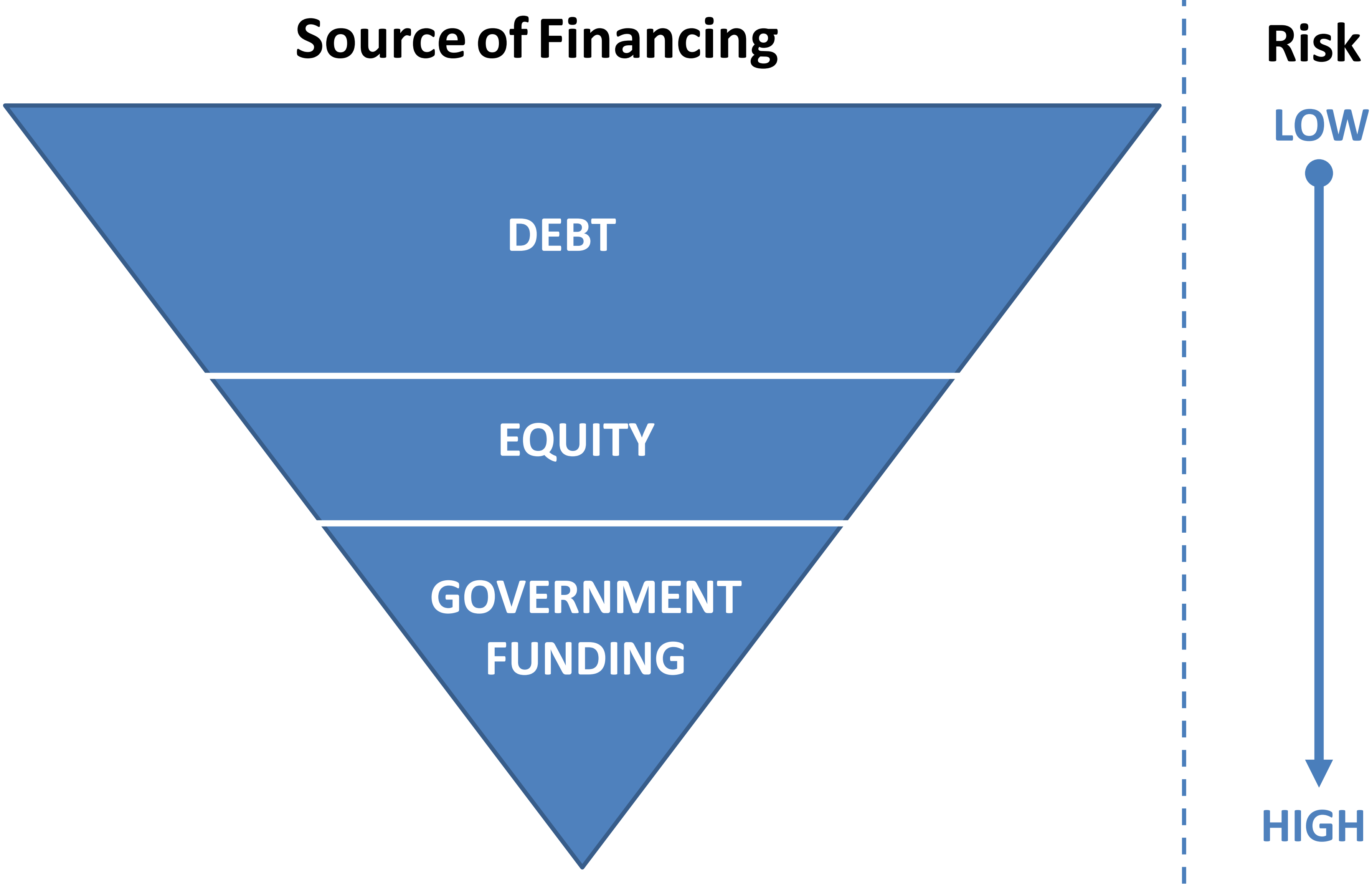
Identification, Mitigation &Allocation of RISKS

Cost, Time, Land Acquisition, Environment Clearances, Traffic, Sequencing, Willingness to Pay, Willingness to Charge, Fuel Supply, Approvals, Enforcement of Order, Corruption

The Balancing Game!

Financing Public Private Partnerships

Financing PPP: *A Question of Risk Allocation!*



DEBT Financing PPP: *What Are The Problems?*

Problem # 1: Quantity Of Funds

PROBLEM	SOLUTION
• Not Enough Funds Available From Banks • Prudential Limits ➢ Ceilings on Bank Lending to Single Sector / Group / Company	• New Sources Like Pension Funds, Insurance Funds • Infrastructure Debt Funds • Bond Markets

DEBT Financing PPP: *What Are The Problems?*

Problem # 2: Quality Of Funds

PROBLEM	SOLUTION
• High Upfront Capital Costs **BUT** Revenues Spread Over Long Time & Back Ended. • Banks Are Required to Provide Long Term Debt. • Banks Only Have Short Term Deposits. **This Creates Asset Liability Mismatch (ALM) for Banks**	**Pension Funds / Insurance Funds** • Can Provide Long Term Debt Based On Long Term & Assured Revenue Stream From Pension/Premium Contributions Without Asset Liability Mismatch (ALM) • Pension Funds/Insurance Funds Require Only Long Term Steady Returns. It Is Provided By Stable Infrastructure Projects. Can Complement Banks.

DEBT Financing PPP: *What Needs To Be Done?*

Action Point # 1:

Development of a Bond Market To Provide Liquidity

Action Point # 2:

Creation of Infrastructure Debt Funds To Share Financing Risks

Action Point # 3:

Provision of Rating For Bond Market & Debt Funds To Assess Risk

DEBT Financing PPP: *Foreign Investment Challenges*

What Are The Foreign Investment Challenges?

1. Most Infrastructure Projects Not Rated Higher Than Domestic Rating Of BBB
2. Sovereign Credit Rating Of BBB- Is An Additional Challenge
3. Regulatory Uncertainties Limiting Exit Options
4. Restrictive Norms Established By Govt. Of India To Limit External Commercial Borrowings
5. High FX, Interest Rate, Commodity Hedging Costs

DEBT Financing PPP: *Credit Enhancement For Bonds*

What Is Credit Enhancement ?

Any structure which reduces the project risks and improves the credit worthiness of the project.

Why Is Credit Enhancement Necessary?

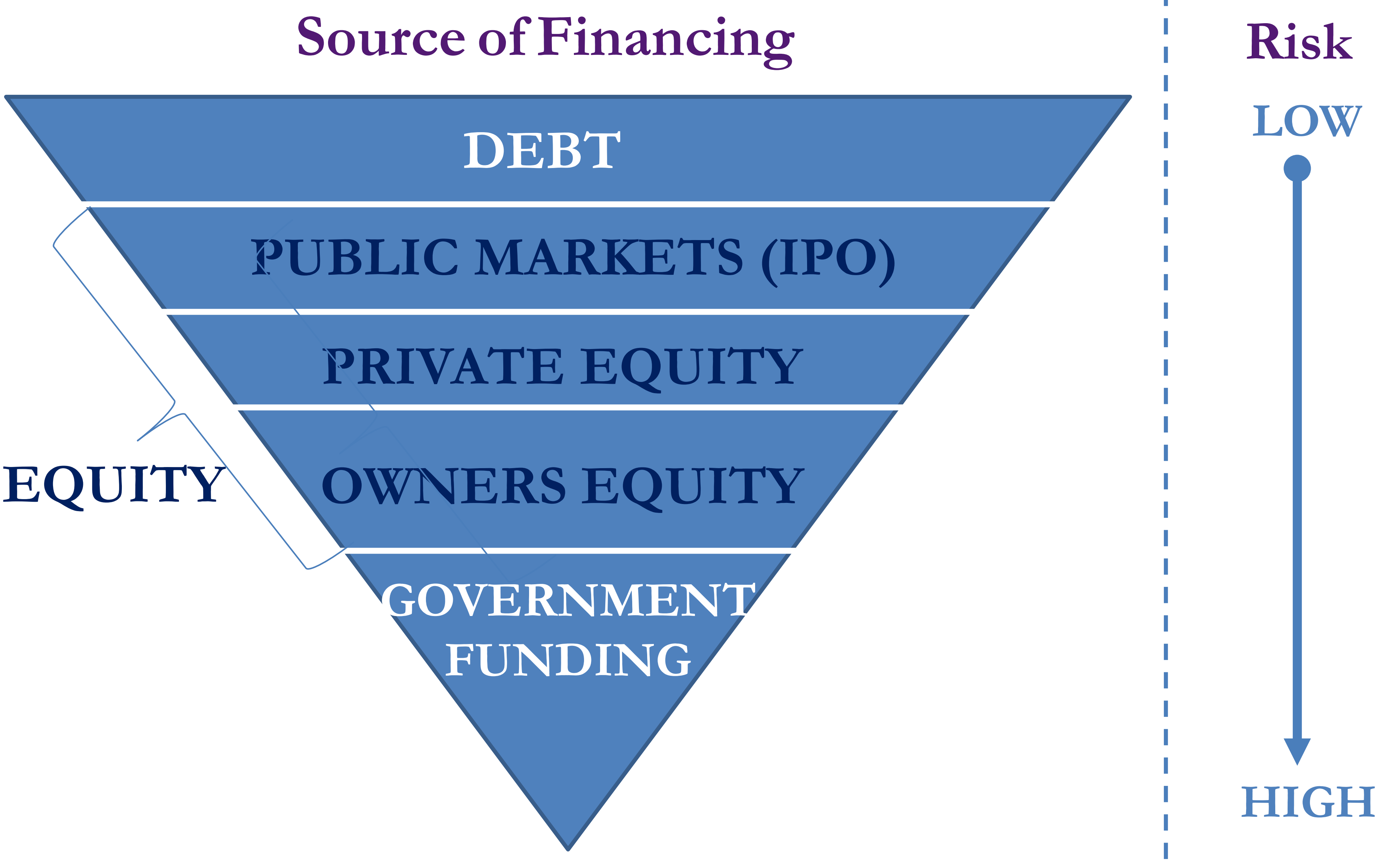
To give comfort to domestic & international institutions and to meet regulatory requirements.

How Do You Provide Credit Enhancements?

1. ***Sovereign Guarantee by Government of India necessary to support projects BUT not sufficient as India is rated BBB-.***

2. ***Need for partnering with multilateral agencies like ADB to enhance the credit rating to internationally accepted AAA paper***

EQUITY Financing PPP: *Sharing of Risk*



EQUITY Financing PPP: *Private Equity In India*

Private Equity In India: *'Cautiously Optimistic'*

- **Investments Made At High Valuations In 2007 & 2008**
- **Target Returns Ranged Between 20-25% With An Investment Horizon Of 3-7 Years**
- **India Fastest-growing Private Equity Market In Asia In 2011**
  - **2011-10.35 Bn USD; 481 Deals**
  - **2012- 8.85 Bn USD; 406 Deals**

- Substantial Fall In Returns Promised To The Investors From 25% To 14-15%
- Exits Now Less Attractive
- Falling Indian Rupee
- India Must Ease Tax, Regulatory Regime To Boost PE Investment

THANK YOU