PPPs IN TRANSPORT INFRASTRUCTURE- THE CURRENT CHALLENGES

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CONSIDER THIS.....

A country has to pay for its roads , whether it has them or it doesn't .

It pays more for the roads it doesn’t have .

"It is now widely recognised that good intentions and good beginnings are not the measure of success. What matters in the end is completion of performances and results.

Not just making promises but making good on promises."

Performance Management Division, Cabinet Secretariat,
Government of India

ECONOMIC INDICATORS - *BRICS* NATIONS

	Brazil	Russia	India	China	South Africa
GDP 2012 (current prices) US$ in billions	2396	2022	1824.8	8227	384.3
Inflation	5.8	6.6	11.2	2.5	5.6
GDP Growth (Avg. 2002-12)	3.5	4.7	7.2	10.3	3.5
GDP Growth : Projection 2014	3.2	3.3	6.3	7.7	2.9

IMF Report 2013

GLOBAL COMPETITIVENESS REPORT 2013-14

(WORLD ECONOMIC FORUM)

OVERALL INFRASTRUCTURE:

India -rank 60 out of 148 (Qatar & Kuwait are fare better, Switzerland having 1st ranking)

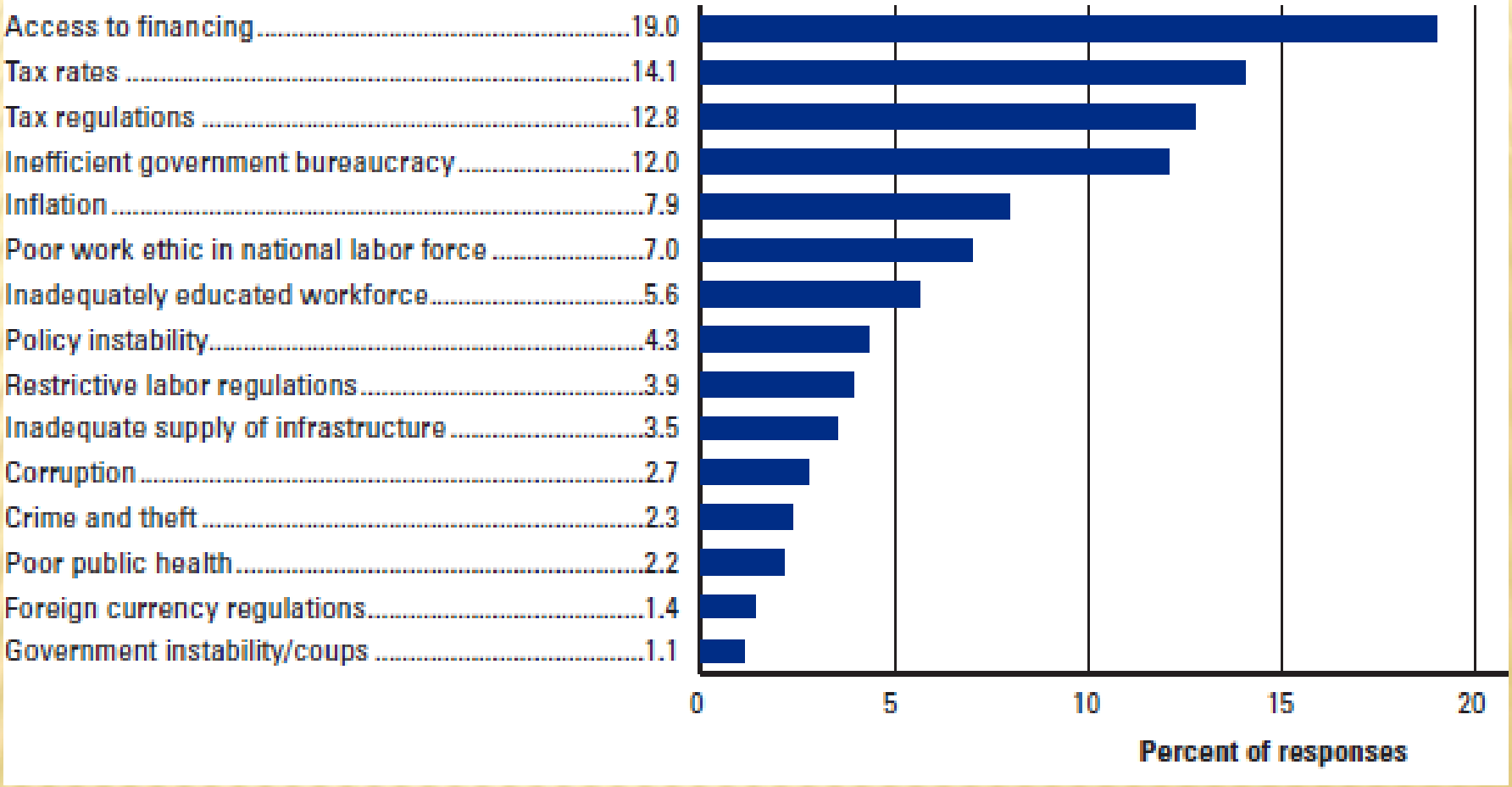
QUALITY OF ELECTRICITY SUPPLY:

India -rank 97 out of 125 (lagging behind Botswana & Vietnam, Iceland having 1st ranking)

QUALITY OF ROADS:

Rank -85 (behind Sri Lanka & Pakistan- rank 48 & 73 resp.)

The most problematic factors for doing business

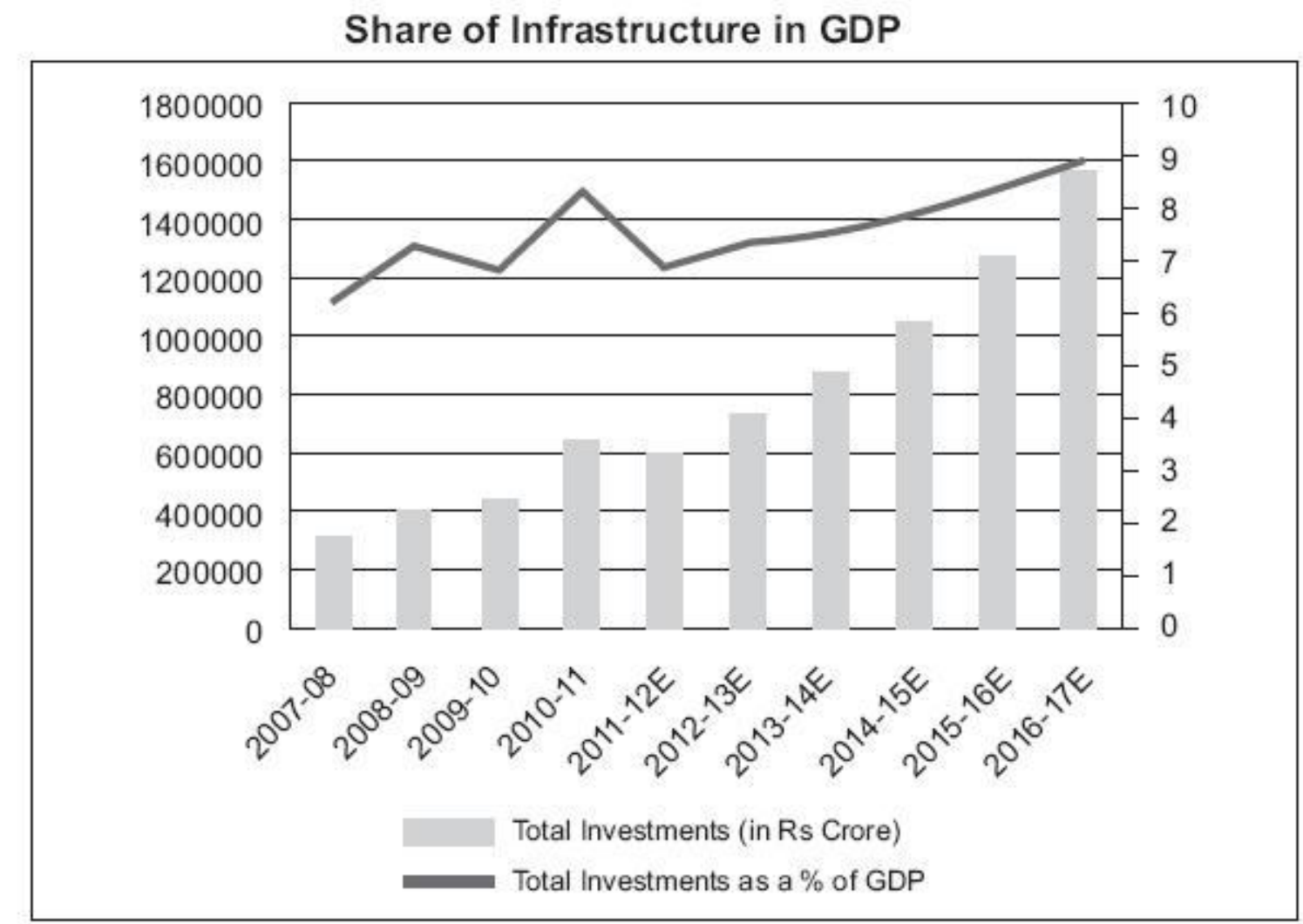


Source: Global Competitiveness Report 2013-14- World Economic Forum

CHANGE IN RANKINGS- GLOBAL COMPETITIVENESS REPORT - WEF

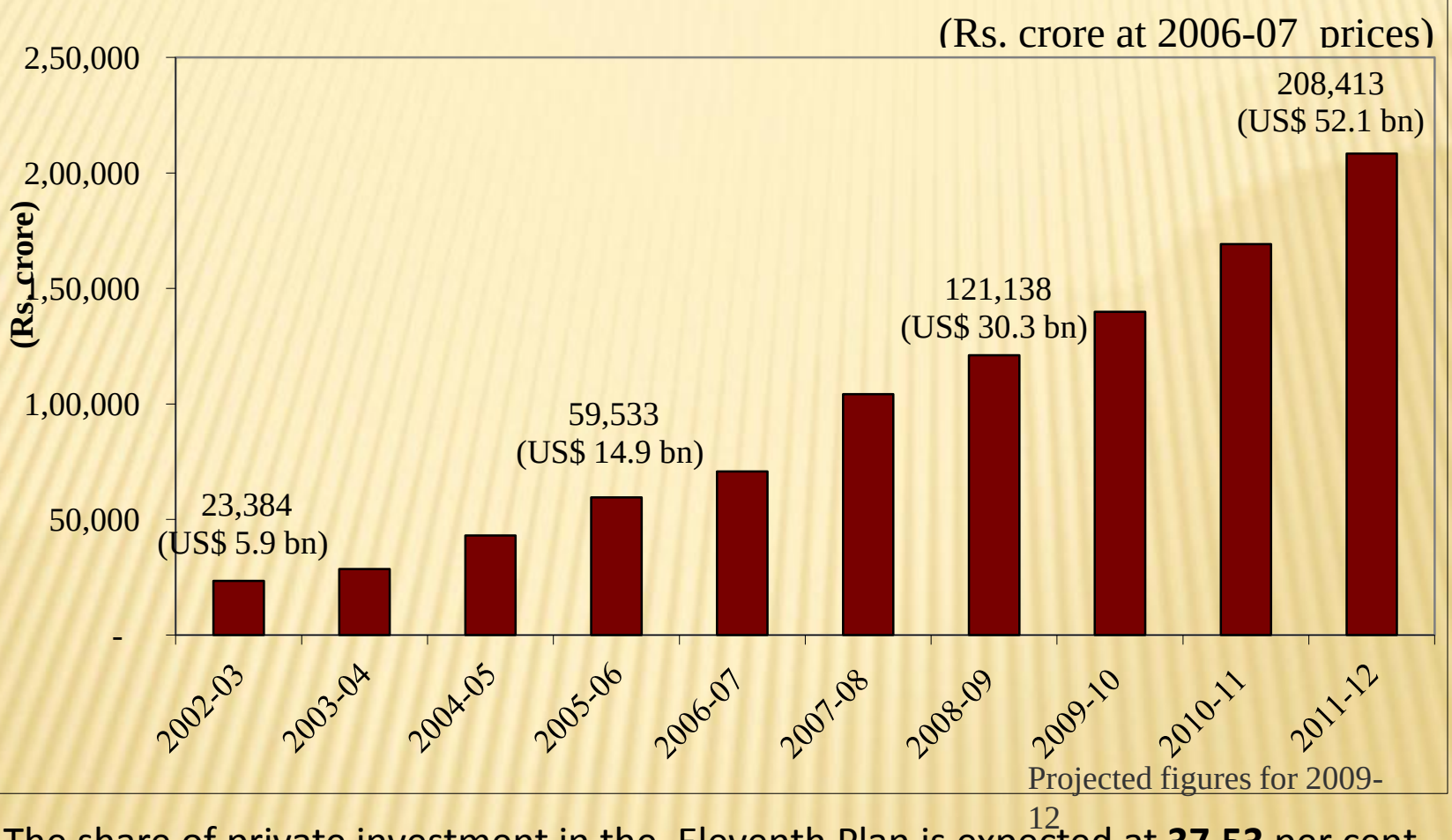
- 2013-14- **Access to financing** has the 1st Rank for the most problematic factor for doing business.
- In 2010-11- the Top Rank was **Inadequate Supply of Infrastructure** which has now moved to the 10th Rank.
- **Corruption** had the 2nd Rank in 2010-11 which has now move to the 11th Rank out of 15 factors.
- **Tax Regulations** have move to the 3rd Rank in 2013-14 as against the 4th Rank in 2010-11.

INFRASTRUCTURE INVESTMENT IN INDIA AS GDP PERCENTAGE



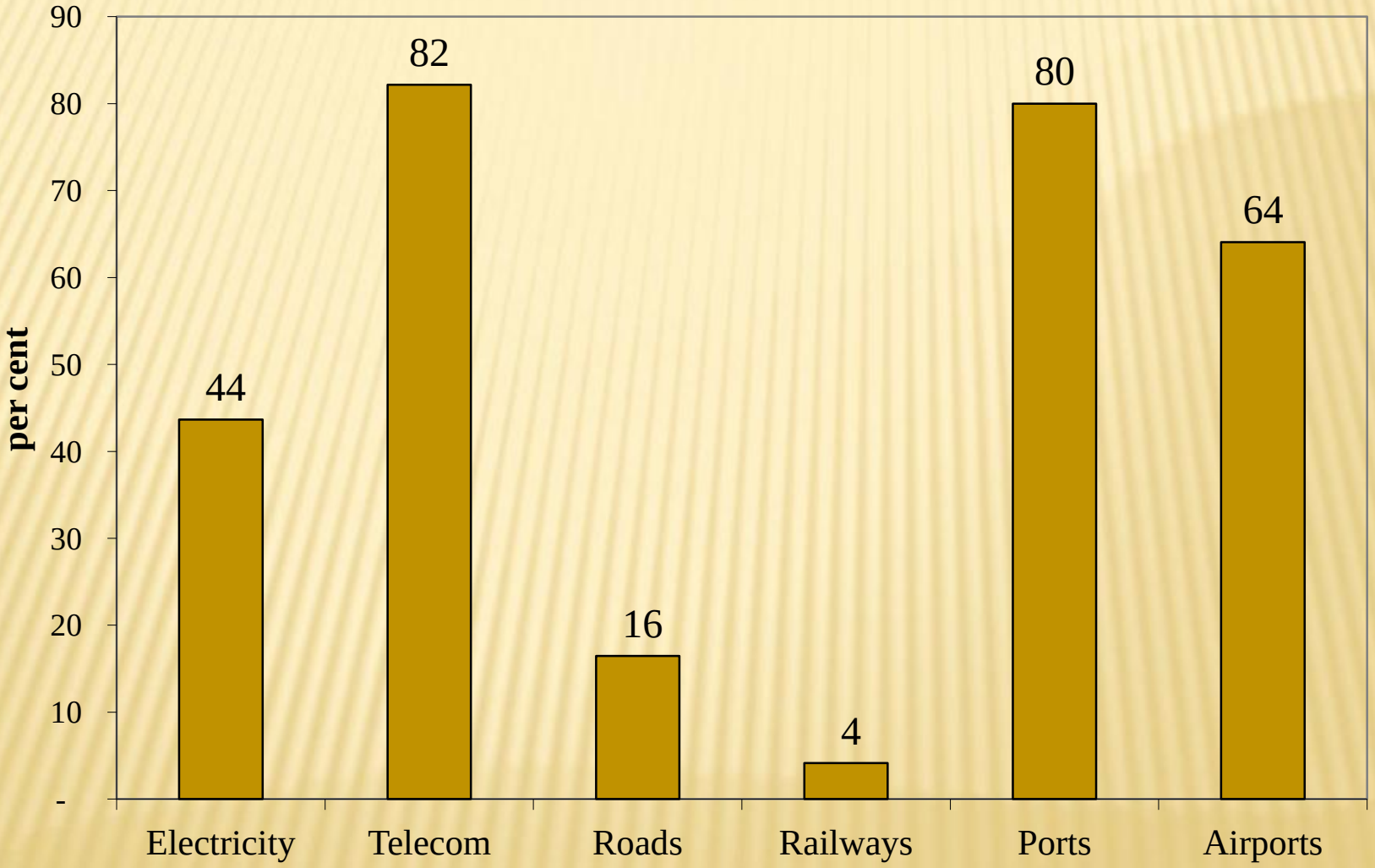
Source: 12th Five-Year Plan document

Growth of Private Investment



The share of private investment in the Eleventh Plan is expected at **37.53** per cent as compared to **22.04** per cent realised during the Tenth Plan, share of private investment in the Twelfth Plan is expected at **46.68** per cent.

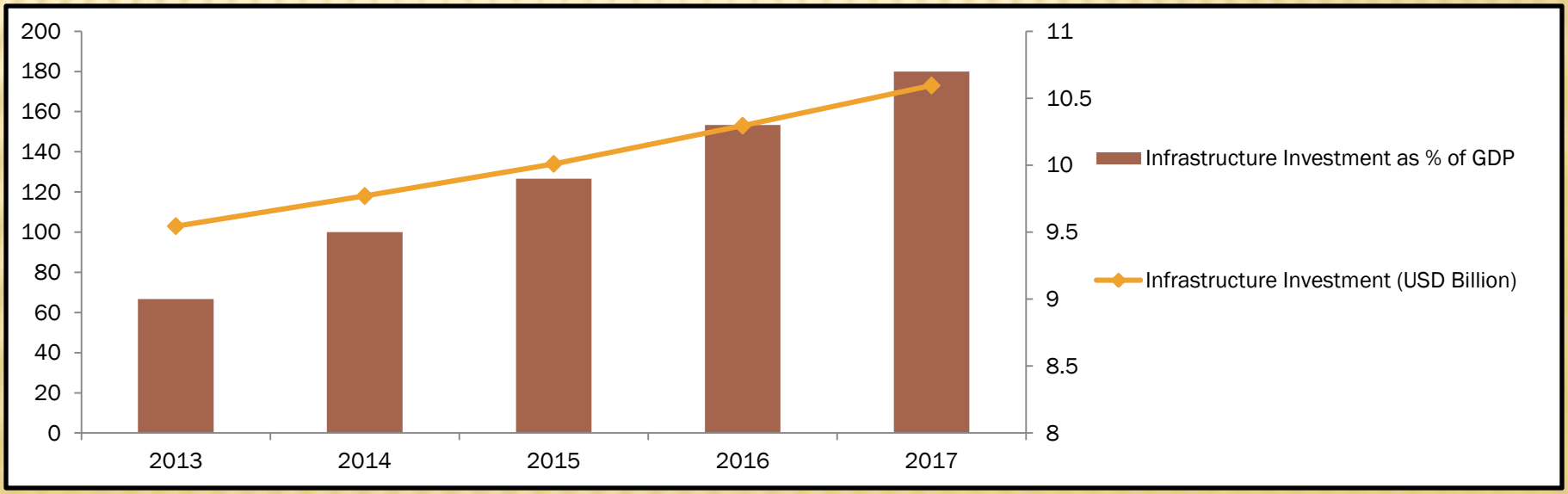
Sector-wise share (%) of private investment during the Eleventh Plan



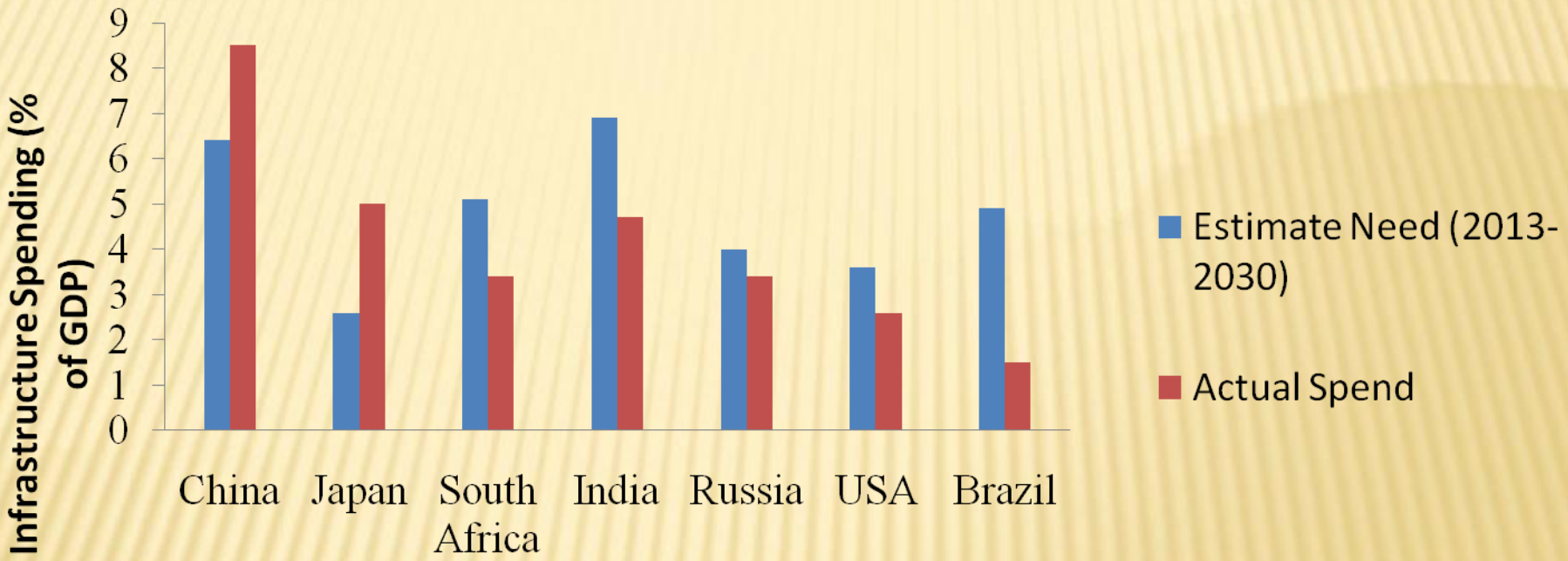
Infrastructure Investment

Trillion Dollar Infrastructure Investment Requirement (2012-17)

- **Public Sector Contribution (USD 561 Billion)**
  - Budgetary Support (USD 269 Billion)
  - Internal Generation (USD 114 Billion)
  - Borrowings (USD 178 Billion)
- **Private Sector Contribution (USD 521 Billion)**
  - Internal Generation (USD 160 Billion)
  - Borrowings (USD 361 Billion)



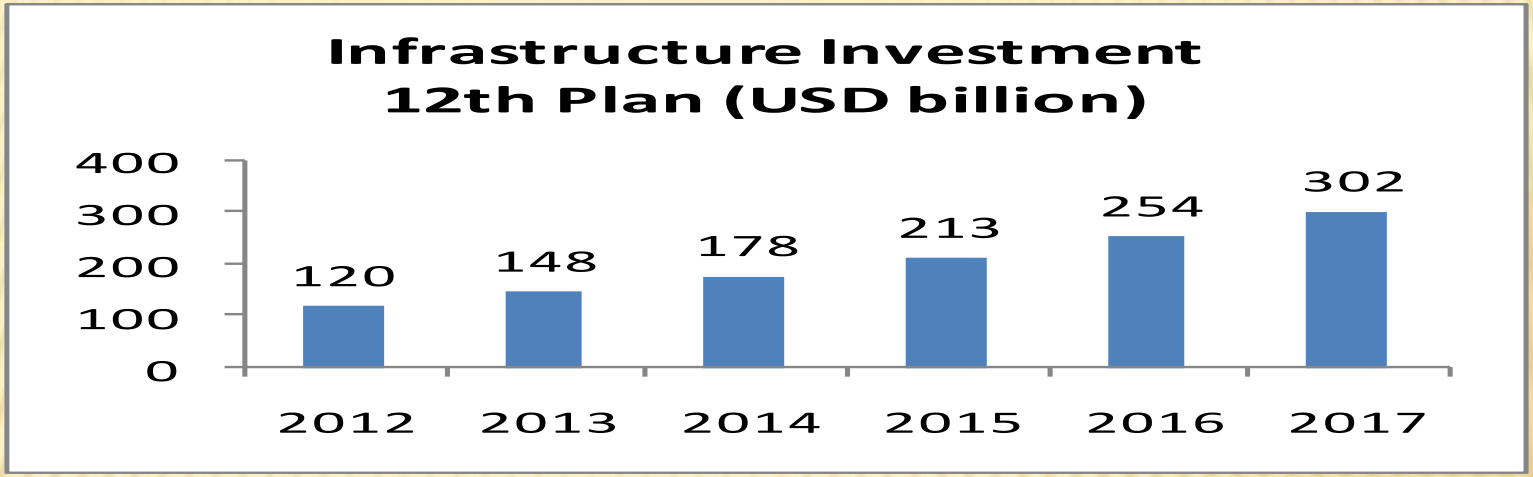
INFRASTRUCTURE INVESTMENTS- COUNTRY COMPARISON

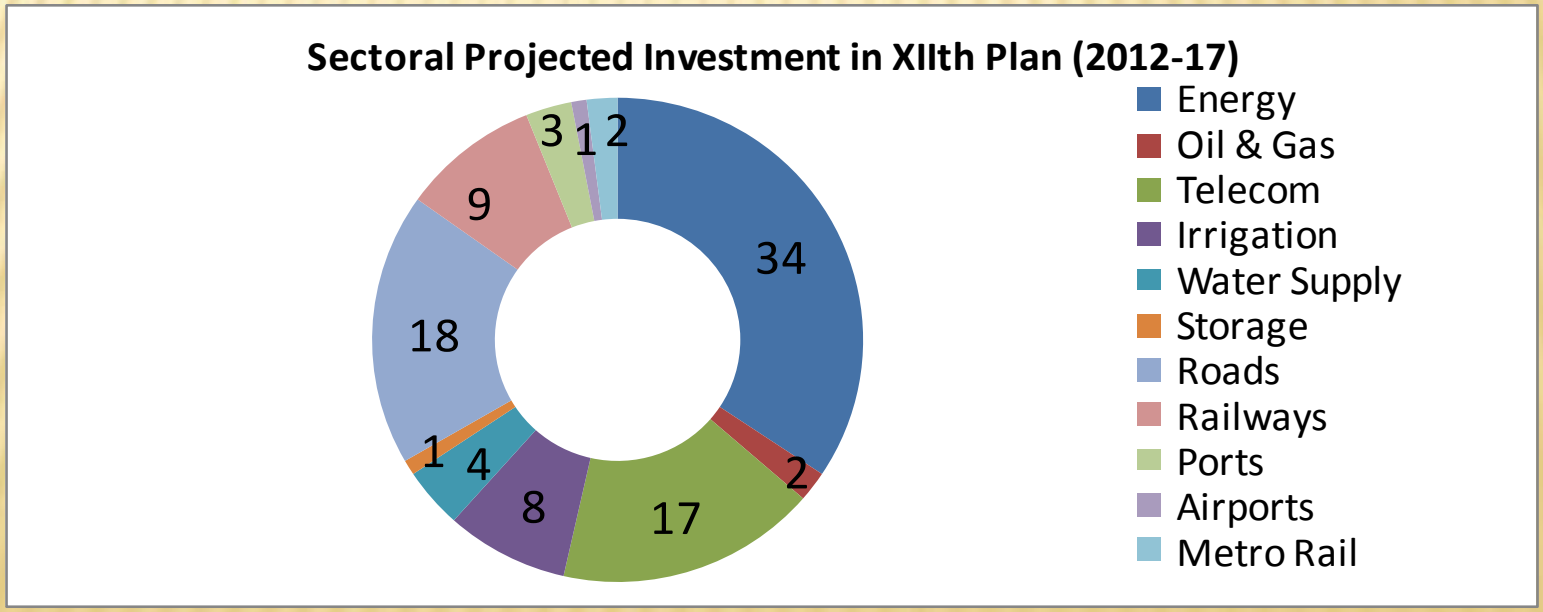


- World's Estimated need for infrastructure investment-57$ trillion between 2013 and 2030.
- World will need to spend more than it has spent historically in infrastructure sector.
- China and Japan can reduce infrastructure investments from historical levels, most other countries need to increase it whereas India needs to increase it.

Actual Spend is average annual expenditure (1992-2011)
Source: McKinsey

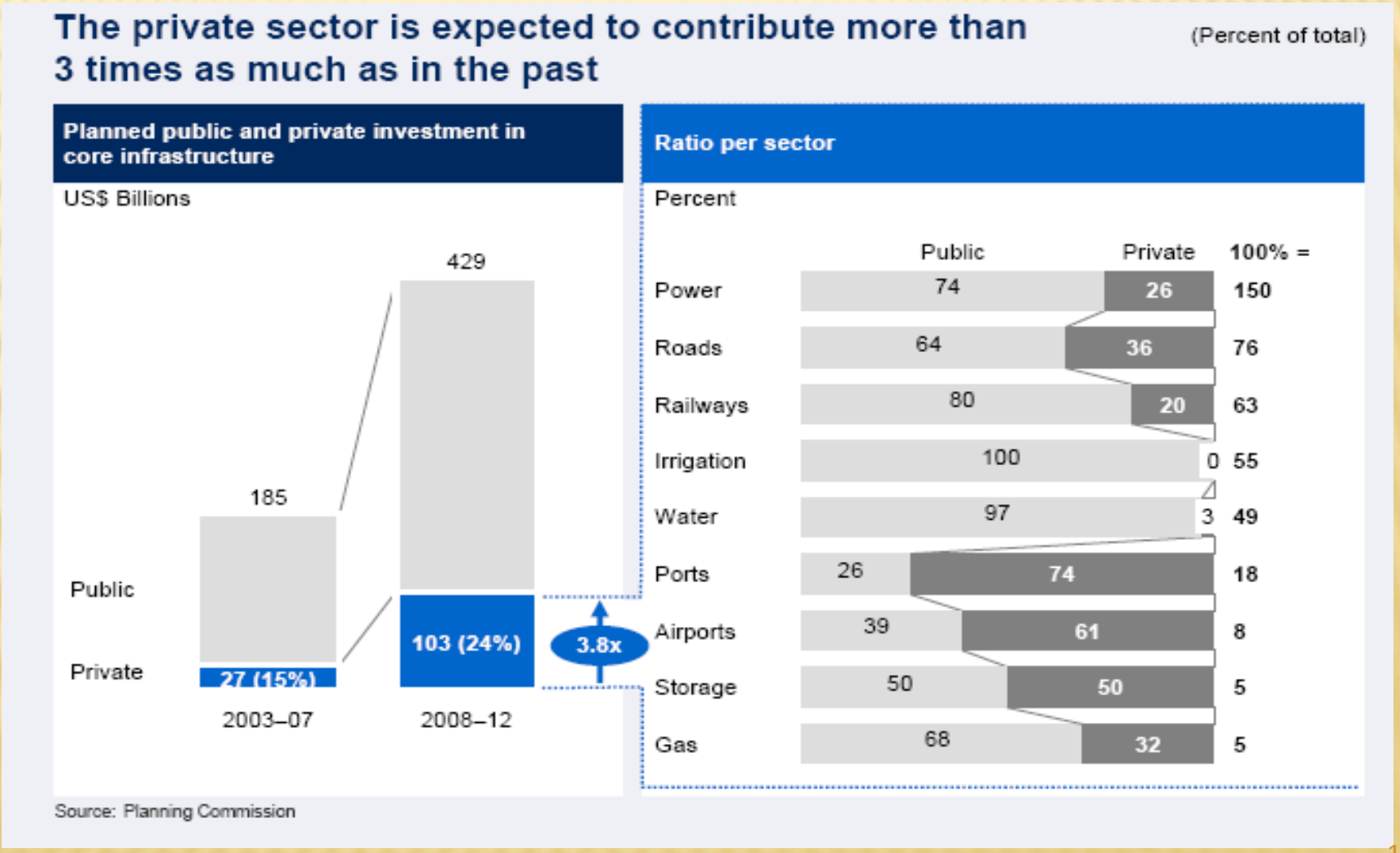
INFRASTRUCTURE INVESTMENT





Source: Planned Documents

EXPECTATIONS FROM THE PRIVATE SECTOR



THE PPP ROAD MAP SO FAR....

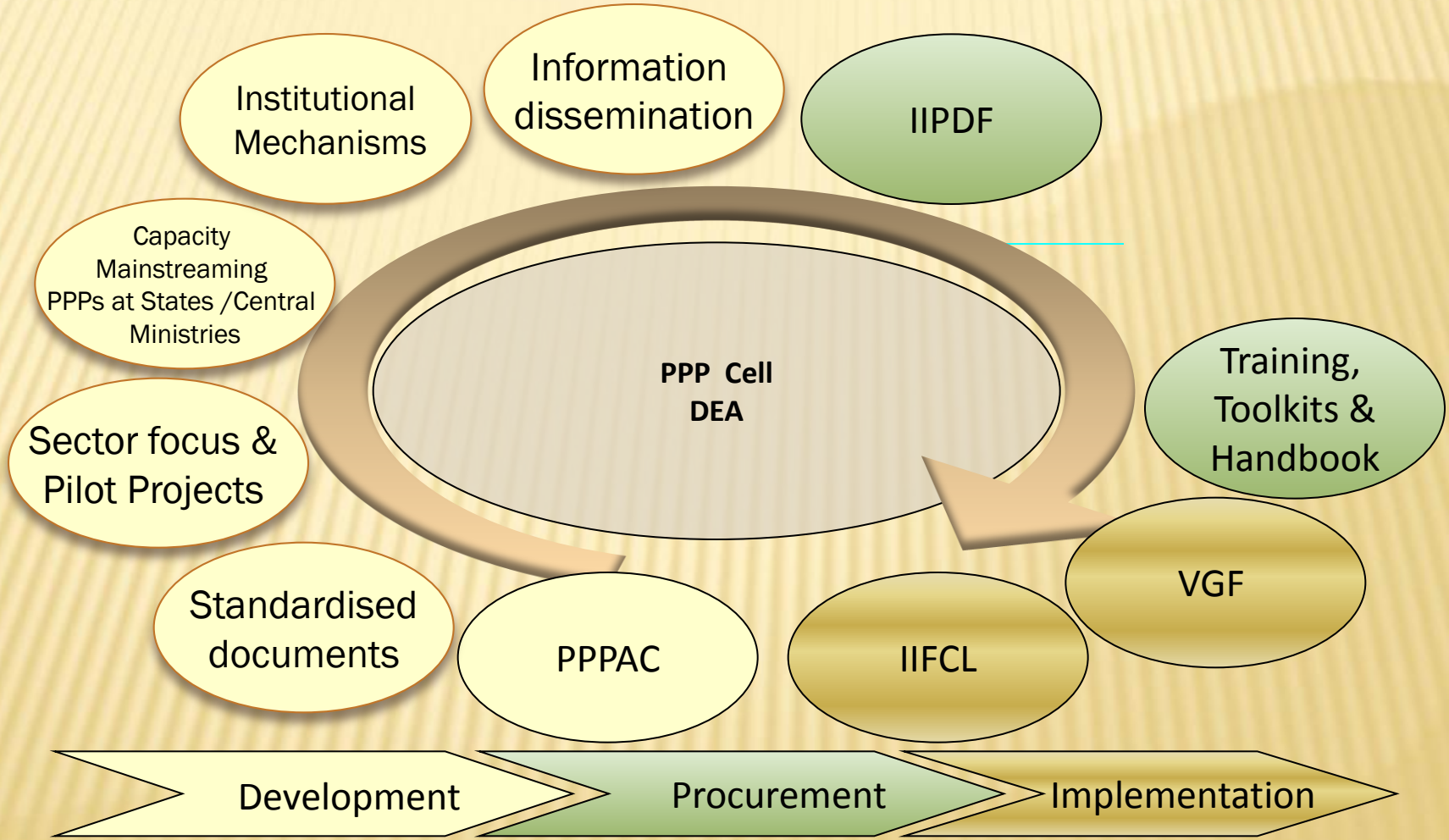
THE CONTEXT

- The PPP processes in India have a relatively young history of 10 -15 years
- PPP projects in India have moved to an inflexion point –moving from asset creation to project operation
- According to the World Bank- PPP projects have highest concentration in India
- India is the largest market for PPPs in developing countries

THE PROGRESS IN PPP ROAD MAP IN INDIA

- Standardised documents MCAs , Model RFPs/RFQs
- Sector Specific Guidelines-some 15 well drafted MCAs Model Concession Agreements
- 570% jump in PPPAC approvals between 2006-2013
- 900% jump in VGF approvals between 2006-13

ENABLING INTERVENTIONS



FRESH INITIATIVES……

- The Finance Minister in his maiden Budget speech (July 2014)highlighted that India had the largest number of PPP projects in the world-900 to be precise
- Proposal to set up a world class Institute called 3P India
- 3P India to look at regulation , financial structure , management of contracts & capacity building

FINANCIAL IMPERATIVES –ENABLING FRAMEWORK

- Setting up of India Infrastructure Finance Company Ltd for access to long term debts/finance
- India Infrastructure Project Development Fund- 75% of PDE support from DEA and 25% from sponsoring Ministry /State
- Viability Gap Funding –current annual allocation US $ 340 million

FINANCIAL INITIATIVES (NEW).....

- RBI has mandated that banks can fund cost overruns up to 10% of project costs
- The loan not to be treated as a restructured asset
- Finance Ministry may now push for greater flexibility including permitting changes in D/ E ratio
- However growing bad debts are a cause for concern- Rs2.4 lakh crores (to end of Dec 2013)

RAILWAY INFRASTRUCTURE: OPEN FOR PRIVATE PARTICIPATION ALONG WITH 100% FDI SEP 2014

Construction, operation and maintenance of the following:

- Suburban corridor projects through PPP.
- High speed Train Projects.
- Dedicated Freight Lines.
- Rolling Stock including train sets and locomotives/coaches manufacturing and maintenance facilities.
- Railway Electrification.
- Signalling Systems.
- Freights Terminals.
- Passenger Terminals.
- Infrastructure in Industrial Park pertaining to railway line/sidings including electrified railway lines and connectivities to main railway line.
- Mass Rapid Transport Systems.

SOME THOUGHTS

- Infra projects are capital intensive , have long gestation periods and are heavily geared
- Even with a zero risk revenue profile why did the Delhi Gurgaon Expressway faulter ?
- Airport Express Link of Delhi Metro
- MMRDA tussle over fare structure of Mumbai MetroRail - VGF of Rs 650 crore.TPC RS 2356 crores. And land at Rs 1/annum provided by MMRDA

- Renegotiating a PPP contract may be a given considering the long concession period
- Tolling revenues may appear small to begin with but can grow exponentially
- Establishing success stories is a must –DIAL , Jaipur Kishangarh Highway
- Government led EPC contracts can compare favourably with PPP contracts- VfM Approach

EXCELLENCE IN PROJECT EXECUTION- NEW PERFORMANCE BENCHMARKS IN TRANSPORT INFRASTRUCTURE

DIAL & DELHI METRO

THEN.....



NOW.....



PRIDE OF THE NATION



YELLOW LINE - HUDA CITY CENTER(GURGAON)




ग्राहक सेवा
Customer Care


Airport/ Dwarka-21
2

T3 TERMINAL OF DIAL



REVENUE SHARE PROFILE FOR AAI

The Profit Share for the AAI from DIAL since formation of JVC

Year	Revenue
2006-07	272 crores
2007-08	403 crores
2008-09	441 crores
2009-10	557 crores
2010-11	651 crores
2011-12	704 crores

Source: Ministry of Civil Aviation & GMR Annual Report

PROFIT AFTER TAX FOR AAI

YEAR	PAT (Rs. in crores)
2006-07	RS 859
2007-08	RS 1081
2008-09	RS 650
2009-10	RS 530
2010-11	RS 846
2011-12	RS 859

SOURCE - Annual Report AAI

CONTD.....

- Delhi International Airport has achieved service quality rating of 4.24 on a scale of five

- It aims to consistently be above 3.75 as per the OMDA throughout the project period.

- .

DIAL - A GAMECHANGER

- Impressive and ambitious PPP project of brownfield airport modernisation
- Ministry of Civil aviation broke new ground by awarding the concessions
- Transparent bidding process and successful implementation in record time
- Impressive revenue share formula

SOME HARD TIMES AS WELL…

- Pain of changeover to the new order- Court cases during bidding process, strict auditing norms ,PIL"s over UDF
- Declining Profitability of AAI –enormous opportunity cost for the public sector
- VFM assessment? Rs 12000 crores revised cost -cost overruns of Rs 4000 crores
- Environmental hazards for populous neighboring areas of Delhi airport

CAG Report on DIAL 2012

After being adjudged among ***the world's Top 10 Worst Airports to fly into***,the New Delhi airport –Delhi International Airport Limited (DIAL) has now been judged to be the **2nd best in the world** in the category of 25-40 mppa airports by **Airports Council International (ACI).**

WHAT HAPPENS TO LOCKED UP PUBLIC ASSETS ?

- Case of Begumpet Airport : It closed operations wef March 23 , 2008.
- It is now used for military aviation training and flights carrying VIPs
- Begumpet was the 6th busiest airport in India. It has 13 parking ways in operation and 5 night parking ways and handled 20,000 passengers daily with 300 aircraft movements.
- Civil Aviation air shows are also being organized for this under utilized public asset.

PROJECT FINANCING RISKS

FINANCING PRIVATE INFRASTRUCTURE- THE CONSTRAINTS

- Funds availability is not the real issue but the ability to structure public infrastructure projects in a manner suitable for private financing.
- Many developing countries facing similar problems as in India
- Four major problem areas identified in India for private financing of Infrastructure

FOUR PROBLEM AREAS

- Tariff determination and viability of project commercial output.
- Number of risks with high cost high gestation period infra projects which are faced by the private sector.
- Risk mitigation strategies offered by the Government.
- Availability of suitable long term finance with an optimum debt equity mix.

OVERVIEW OF FINANCING PARAMETERS

- Tariff Regulation and determination for Infra projects from the COD- Commercial Operation Date – eg Toll Tax or UDF
- Expectation of high rate of return on private equity -20-25%
- In India the ROR for power sector after taxes is fixed at 12% as compared to 15% in China
- In cost plus tariff regime , due diligence has to be exercised in arriving at capital cost to avoid padding or gold plating of capital cost by the investor

OVERVIEW OF FINANCING PARAMETERS CONTD....

- In competitive bidding for infra projects the private sector insists for counter guarantee by Central Government especially power projects
- Other guarantees are
- Exchange risk protection
- Assured off take of power generated
- Protection against fuel supply risk
- Other risk mitigation areas

TARIFF FORMULA-ITS SIGNIFICANCE

- Open Competitive bidding in PPP projects is preferable to negotiated bids
- Regulated Tariffs in Competitive Bidding
- Revenue share formula is usually adopted (e.g DIAL)
- Role of regulator in Tariff fixation and revenue sharing
- One option is to delink infra component of project from revenue generating activities and use latter to finance the former by revenue share formula

FINACING OPTIONS –OTHER ASPECTS

- Explicit subsidies to be provided in non profitable aspects of the Infra project
- Resistance from public has to be factored in
- Low priced infra facilities under Government would give way to perceived –as- costly but vastly improved & efficient infra services
- No two infra project agreements can be similar as issues involved are different eg Power vs Roads

VARIOUS RISKS IN INFRA PROJECTS

- Risks in infra projects perceived to be higher
- Execution not by big companies but by SPVs created specially for that project
- Project Financing Mode with Limited Recourse or No Recourse on BOT /BOOT/BOLT basis
- Non Recourse Financing-Lenders do not have recourse to main sponsors but only to revenue streams of the project to meet debt service obligations

OTHER FINANCING RISKS

- **Construction Risk** – none in telecom sector but high in road, rail, power projects
- **Operating Risk** –eg low tariff formula in power plant agreement , counter guarantees , substantial liquidated damages enforced on fuel suppliers in power plants
- **Market risk**-traffic below projections
- **Interest rate risk-Infra** finance is typically long term from 10-15 years

OTHER FINANCING RISKS CONTD

- **Foreign exchange risk-** currency convertibility to be permitted by government for foreign debt payments. Also exchange risk coverage
- **Payment risk** –important when there are monopoly purchasers ,creation of escrow accounts when inflows are used to pay off the infra service provider as a *first charge*
- **Regulatory Risk** – eg . Current tariff formula for 2 G spectrum pricing in India by TRAI

- THANK YOU !