Topic: Financial Model and Support for Construction and Infrastructure Projects in South East Asia
“It is not wealth that builds our roads, but roads that build our wealth”

- John F Kennedy

If we want to be counted among the world leaders, then we have to provide world class facilities

You don’t get a second chance to make a first impression!
Challenges in Infrastructure Development

Most developing economies face similar challenges:

- Inadequate budgetary resources to fund infrastructure investments
- PPP in evolutionary stage
- Technical: Lacks Standardized guidelines, standards and procedures
- Regulatory hurdles: Ease of Entry, Tariff Fixation, User Fee, Transparent procurement
- Institutional and Legal: Absent or inadequate common legal framework
Infrastructure Delivery Model

**Policy and Planning Phase**

1. Condition of infrastructure v/s financial situation
2. Legislation / Regulation
3. Leadership: Policy and Project Management
4. Planning: Environmental assessment and project opportunity
5. Communication: Internal and external with major stakeholders

**Transaction Phase**

1. Transaction Process
2. Shortlist qualified bidders
3. Risk transfer and value for money
4. Payment mechanism / performance
5. Request for Proposal
6. Finalize Project agreement
7. Preferred bidder selection and negotiation
8. Financial close

**Construction and Concession Phase**

1. Transition to construction (e.g., design / build)
2. Construction and monitoring
3. Facility Operation (contract and relationship management)
4. Evaluate whether promised benefits materialized
5. Maintenance: Hard and soft service provision
6. Asset hand back

**Sequential Activities for Infrastructure Delivery**

**Key Activities**

1. Establish objectives
2. Evaluate Alternative Financing Structures
3. Communicate the benefits
4. Build Market Interest
1. Establish a realistic Time Frame
2. Secure the Best Value for Money
3. Establish Performance Standards
4. Develop Draft project Agreement
5. Establish Construction Governance
1. Monitor Construction
2. Monitor the Concession
3. Prepare Staff
4. Establish the Concession Governance Model
PPP Evolution

PPP to influence Policies

Strategic Level PPP

Program Level PPP

Project level PPP
<table>
<thead>
<tr>
<th>High</th>
<th>Low</th>
<th>Service Contracts</th>
<th>Management Contracts</th>
<th>Turnkey contracts</th>
<th>D&amp;M Concessions</th>
<th>BOT</th>
<th>BOO</th>
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</thead>
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**Risk to the Public Sector**

**Risk to the Private Sector/ Private Investment**

**Decreasing Public Risks, Increasing Private Risks**

**Increasing Capacity Augmentation**

**Increased Scope for Productivity Gains**
The key to achieve all above is **Project Development**
Case Study
A typical PPP Project
**A Typical PPP Project Dynamics**

### A Typical PPP Project Economics

#### Key Assumptions:

<table>
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<th>Assumption</th>
<th>Value</th>
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<tbody>
<tr>
<td>Project Cost (USD mn)</td>
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<td>Debt (% of financing)</td>
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<td>Equity (% of financing)</td>
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<tr>
<td>First Year Revenue (USD mn)</td>
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<tr>
<td>Operating Cost (% of revenue)</td>
<td>15%</td>
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<tr>
<td>Interest Rate</td>
<td>12%</td>
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<td>Repayment of Loan back-ended</td>
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**Years of Operation of PPP Contract**

**Amount in USD million**

[Graph showing revenue over years of operation.]

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[Graph showing the increase in amount over the years of operation.]
A Typical PPP Project Economics

- **Key Assumptions:**
  - **Project Cost (USD mn):** 1,000
  - **Debt (% of financing):** 70%
  - **Equity (% of financing):** 30%
  - **First Year Revenue (USD mn):** 100
  - **Operating Cost (% of revenue):** 15%
  - **Interest Rate:** 12%
  - **Repayment of Loan:** back-ended
  - **Toll Rate Escalation p.a.:** 5%
  - **Traffic Growth:**
    - 0 to 5 years: 6%
    - 5 to 10 years: 4%
    - 10 to 15 years: 2%
    - 15 to 20 years: 2%

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**Years of Operation of PPP Contract**

- **Operating Cost**
- **Debt Servicing**
- **Major Repairs amortization**
- **Revenue**

**Amount in USD million**
A Typical PPP Project Economics

**Key Assumptions:**
- Project Cost (USD mn) 1,000
- Debt (% of financing) 70%
- Equity (% of financing) 30%
- First Year Revenue (USD mn) 100
- Operating Cost (% of revenue) 15%
- Interest Rate 12%
- Repayment of Loan back-ended
- Toll Rate Escalation p.a. 5%
- Traffic Growth:
  - 0 to 5 years 6%
  - 5 to 10 years 4%
  - 10 to 15 years 2%
  - 15 to 20 years 2%

**Actual Returns from the Project**

- **Discounted Pay Back Period (Equity) @12% discounting**: 16 year
- **Simple Pay Back (Equity)**: 11 year
- **Internal Rate of Return (Equity)**: 15.11%
Measures to attract investors to PPP

• Lower the equity pay-back period
  • Support from Government in the initial operating period
  • Availability of debt which matches the cash generation profile
  • Deep discount structures which front end some of the back-ended free cash
• Introducing concepts like return on capital which could be expensed through P&L
  • Would ensure a minimum stable return to investors
• Change depreciation policy to be in line with revenue generation
  • Would ensure somewhat equal profits throughout project duration
• Security to investors
  • Termination clauses protecting investors in case of early termination
  • Provide minimum revenue assurance in case of green-field user fee based projects
  • Protection from change in law – since project duration is very long
ABOUT IL&FS

IL&FS is an integrated infrastructure financing and developing institution with end to end project delivery framework for infrastructure projects

One of India's leading infrastructure development and finance companies

OUR SHAREHOLDERS

International Institutions – 36%    Indian Institutions – 64%

ADIA
Life Insurance Corporation of India
State Bank of India
ORIX
Central Bank of India
HDFC
IL&FS Infrastructure Experience

IL&FS is pioneer in PPP Infrastructure Projects with experience across a range of sectors;

We specialise in the area of Project Development, Project structuring, Project Monitoring and Construction, Operations and Maintenance.

Sectors where we operate

- Airports
- Education
- eGovernance
- Environment
- Health
- Municipal Finance
- Ports
- Power
- Rehabilitation of Assets
- Resettlement & Rehabilitation
- Roads & Bridges
- Water
- Urban Rail
- Solid Waste Management
- Sewerage
- Special Economic Zone
- Telecom
- Urban Infrastructure
IL&FS Transportation Networks Limited (ITNL)
IL&FS Transportation Networks Limited (ITNL) is India’s Largest Surface Transport Infrastructure Developer;

Listed company with 72.5% owned by Institutions and remaining 27.5% public holdings.
Diversified experience
- Roads
- Metro Rail
- Urban Transport
- Airport
- Parking projects

Project portfolio of more than USD 6.4 Billion;
Presence in Asia, Europe, Africa and Latin America

NOTABLE INTERNATIONAL TRANSACTIONS (APAC)

BOT Projects - Hanoi to Haiphong Expressway, Vietnam
Yu He Expressway, China
ITNL Offerings

- Equity Investor (Greenfield and Brownfield Projects)
- Project Developer and Advisor
- Design and Engineering
- Supervision and Quality Control
- Operations and Maintenance

ITNL Value Propositions

- **Project Identification**
  - Assist client with project identification
  - Pre Feasibility Studies
  - Implementation Framework

- **Project Development**
  - Detailed Feasibility
  - Bid Process Management
  - Contract Management

- **Project Implementation**
  - Developer/Financier
  - Contractor/Project Manager
  - Operations and Maintenance
**ITNL IN NUMBERS**

- Largest surface transport Concessionaire in India
- Presence across 5 Continents
- 1.4 Billion USD (Income 2012-13)
- Road Portfolio of 36,000 Lane km
- 27 Road Concession
- 250 Toll Lanes
- 100 Million Vehicles per Year
- Average 4 Year Sales CAGR 98.4%
- Average 4 Year PAT CAGR 57.6%

**CHENANI NASHRI – INDIA’S LONGEST ROAD TUNNEL (9Km)**
ITNL Rail Experience

- First Full Metro System on PPP basis (infrastructure, O&M)
- Project Cost: USD 200 Mil.
- Number of Stations: 12
- Line Capacity: 20,000 PPHPD
- 1st Phase Operational; 2nd Phase under construction

First PPP Metro 100% owned by ITNL with 99 Years Concession
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THANK YOU