

Takeout Finance Scheme for Financing Viable Infrastructure Projects

Preamble

In the Union Budget speech for the year 2009-10, the Hon'ble Union Finance Minister stated *"To stimulate public investment in infrastructure, we had set up the India Infrastructure Finance Company Limited (IIFCL) as a special purpose vehicle for providing long term financial assistance to infrastructure projects. We will ensure that IIFCL is given greater flexibility to aggressively fulfill its mandate. Takeout financing is an accepted international practice of releasing long-term funds for financing infrastructure projects. It can be used to effectively address Asset-Liability mismatch of commercial banks arising out of financing infrastructure projects and also to free up capital for financing new projects. IIFCL would, in consultation with banks, evolve a takeout financing scheme, which could facilitate incremental lending to the infrastructure sector"*. As a follow-on action, IIFCL undertook a consultative process with key stakeholders and has formulated a 'Takeout Finance Scheme'. The Empowered Committee, in its 15th meeting held on December 1, 2011 modified certain features of the Takeout Finance Scheme. The modified Takeout Finance Scheme is detailed below.

Short Title and Extent

- 2.1. The Scheme will be called the Takeout Finance Scheme for financing Viable Infrastructure Projects.
- 2.2. The Takeout Finance Scheme came into force from 16th April 2010.

Objectives of the Takeout Finance Scheme

- 3.1. To boost the availability of longer tenor debt finance for infrastructure projects.
- 3.2. To address sectoral / group / entity exposure issues and asset-liability mismatch concerns of Lenders, who are providing debt financing to infrastructure projects.
- 3.3. To expand sources of finance for infrastructure projects by facilitating participation of new entities i.e. medium / small sized banks, insurance companies and pension funds.

Definitions

In this Scheme unless the context otherwise requires:

- **Borrower** means the legal entity which is implementing the infrastructure project to which assistance is to be given by the IIFCL under the Takeout Finance Scheme.
- **Common Loan Agreement** means the Agreement signed between Lenders and the Borrower.
- **Effective Date** means **16th April 2010**.
- **IIFCL** means the India Infrastructure Finance Company Limited (A company incorporated under the Companies Act, 1956).
- **Lenders** mean any of the scheduled commercial banks, or any other participating entity (ies) except insurance companies, who have extended loans under the

Common Loan Agreement to the Borrower. For avoidance of doubt, promoter(s) of the Borrower or the affiliates of the promoter(s) shall not constitute Lenders consequent to any debt financing extended by such promoter(s) and / or any of their affiliates to the Borrower.

- **Project Term** means the duration of the project contract or concession agreement for an infrastructure project.
- **Scheduled Date of Occurrence of Takeout** means the date on which takeout is scheduled to occur as per the terms of the Takeout Agreement.
- **SIFTI** means Scheme for Financing Viable Infrastructure Projects through a Special Purpose Vehicle called India Infrastructure Finance Co Ltd (IIFCL) and implemented by IIFCL.
- **Takeout Agreement / Agreement** means the agreement entered into by IIFCL, identified Lender(s) and Borrower, pursuant to the provisions of the Takeout Finance Scheme.
- **Takeout Amount** means the aggregate amount of the residual loan agreed to be taken out by IIFCL on the Scheduled Date of Occurrence of Takeout, pursuant to the Takeout Agreement.
- In this Takeout Scheme unless the context otherwise requires, all Capitalized terms used and not defined herein shall have the meaning assigned to them under the SIFTI (Scheme for Financing Viable Infrastructure Projects through a Special Purpose Vehicle called India Infrastructure Finance Co Ltd (IIFCL) and implemented by IIFCL.

Eligibility

5.1. The Scheme will be extended to Lenders and proposal can be received by IIFCL either from Borrower(s) or from Lender(s).

5.2. In order to be eligible for the Scheme, the infrastructure projects need to satisfy the following conditions:

- The infrastructure project should be from sector(s) as defined in clause 5.2 (c) of SIFTI, which currently reads as under:

“The project should be from one of the following sectors:

- Road and bridges, railways, seaports, airports, inland waterways and other transportation projects;
- Power;
- Urban transport, water supply, sewage, solid waste management and other physical infrastructure in urban areas;
- Gas pipelines;
- Infrastructure projects in Special Economic Zones;
- International convention centres and other tourism infrastructure projects;
- Cold storage chains;

- Warehouses;
- Fertilizer Manufacturing Industry.

The above list of sectors will be kept in line with the clause 5.2 (c) in SIFTI and its subsequent modifications, if any.

- Infrastructure projects which have achieved financial closure and have a residual debt tenor of at least 6 years.

Extent of takeout financing

6.1. IIFCL shall provide takeout financing to individual Lender(s) to the extent of **100%** of the residual amount of the loan on the Scheduled Date of Occurrence of Takeout. *In the case of Lead Bank, IIFCL shall provide takeout finance to the extent of 75% of residual amount of loan.* However, the total Takeout Amount cannot exceed 50% of the total residual loan of the infrastructure project on the Scheduled Date of Occurrence of Takeout.

Takeout Agreement and its timing

7.1. IIFCL, the identified Lender(s) and the Borrower shall enter into a tripartite agreement i.e. Takeout Agreement pursuant to the Takeout Finance Scheme.

7.2. For projects where financial closure is yet to be achieved, IIFCL will enter into a Takeout Agreement at the time of financial closure of the project. Such Agreement will be signed along with the Common Loan Agreement for the project.

7.3. Projects where financial closure has been achieved and having a residual debt tenor of at least 6 years, IIFCL will enter into a Takeout Agreement when the relevant Borrower and Lender(s) approach IIFCL any time on or after the Effective Date.

Tenor of Takeout financing

8.1. The disbursement of Takeout generally shall take place one year after the actual Commercial Operation Date (CoD) of the project except in cases of PPP Roads projects (annuity basis) and such other sector as may be approved by the Empowered Committee, where the take out can take place immediately after COD. However in all cases revenue flow should be assessed before disbursement.

8.2. The tenor of the Takeout Amount with IIFCL shall be at least one year less than the average tenor of IIFCL's borrowing or at least one year before the end of the Project Term whichever is earlier. This will be subject to the Lead Institution retaining a minimum of 10% of its exposure till the last repayment of the taken out loan.

Rate of Interest

9.1. The rate of interest for the loan taken-out by IIFCL on the Scheduled Date of Occurrence of Takeout be subject on the basis of credit risk rating of two reputed rating agencies Post CoD and reflected through the Base Rate plus the risk premium. Detailed guidelines for the same are as given in **Annexure I** to this document.

Takeout Fees

- 110.1. The borrower(s) availing the takeout finance from IIFCL under the Takeout Finance Scheme will pay a Takeout Fee to IIFCL @ of 30%*(difference in interest rate * amount of loan taken out), which will be passed on to the lender(s) by IIFCL

Appraisal, Monitoring and Recovery

- 111.1. The Takeout Agreement will be signed by IIFCL, subject to it being satisfied with the appraisal done by reputed appraising institutions and the same being accepted and adopted by the Lead Bank and subject to its own due diligence process.
- 111.2. IIFCL will monitor the periodic evaluation of compliance of the project with agreed milestones and performance levels.
- 111.3. IIFCL with the Lead Bank / consortium Lender shall be responsible for regular monitoring and periodic evaluation of compliance of the project with agreed milestones and performance levels. The Lead Bank / Lender shall send periodic progress reports in such form and at such times, as may be prescribed by IIFCL.

Other features of the Takeout Finance Scheme

- For infrastructure projects eligible for the Takeout Finance Scheme but yet to achieve financial closure as on the Effective Date, IIFCL may also take certain direct exposure under SIFTI along with the Lenders.
- In case of Takeout Financing IIFCL's total exposure including direct lending shall not exceed 30% of the Total Project Cost, subject to applicable regulatory norms.
- After entering into Takeout Agreement, in case any fraud or forgery committed by the Borrower comes to the notice of IIFCL, the Takeout Agreement shall stand terminated.
- On the Scheduled Date of Occurrence of Takeout, the takeout will be executed in respect of only those loans, which are classified as standard assets in the books of the Lenders who have signed the Takeout Agreement.
- On the Scheduled Date of Occurrence of Takeout, the takeout will be executed if the Debt Service Coverage Ratio of the project is same as in the case of lenders and in no case lower than 1.0.
- Subject to the provisions of the Takeout Finance Scheme, at the time of occurrence of takeout, it will be the obligation of the Lender(s) and IIFCL, who have entered into Takeout Agreement, to effect the takeout without any protest, contest or demur.
- At any time before or after occurrence of takeout, the Borrower will have the option to prepay the loans pursuant to the relevant provisions of the Common Loan Agreement and Takeout Agreement.
- After entering into the Takeout Agreement but before the loans are taken out, if Lenders propose any change in the loan terms i.e. restructuring of loan or related matters, IIFCL will be invited to attend the relevant meeting of Lenders to be held pursuant to the Inter- Creditor Agreement and IIFCL's views will be taken into consideration by Lenders in keeping with the spirit of the Takeout Agreement. If IIFCL is not agreeable to restructuring of loans, it will have an option to opt out of the Takeout Agreement.
- After the loans are taken out, IIFCL will become a party to the Inter- Creditor Agreement.

- IIFCL will have the option to restructure loans taken out to suit the project ground realities and the cash flows. Such restructuring may include increasing the extent of debt funding in the project if allowed by the project cash flows. However, such an option will be exercised in accordance with the provisions of the Inter Creditor Agreement.
- Any amount of debt raised to fund any cost overrun in the project shall only be covered if the same has been agreed to by the Lenders.
- Once takeout is effected pursuant to the Takeout Agreement, IIFCL's security interest in the project's assets and cash flows shall rank pari passu with senior debt extended by the Lender(s).
- The legal cost including stamp duty shall be borne by the Borrowers who have availed the Takeout Finance Scheme.

Annexure I

The rate of interest for the loan taken-out by IIFCL on the Schedule Date of Occurrence of Takeout may be subject to reduction based on the revised risk profile of the project as indicated by a valid credit rating from the credit rating agency approved by RBI as detailed below:

Sr. No	External Rating of the SPV / company	PPP (Annuity based Road) Projects	Public Sector (Fee based) Projects	PPP (Toll / Fee based) Projects	Non-PPP Projects	Coal based Projects (PPP /Public sector)	Coal based Projects (Non PPP)
1	AAA (External rating) or Grade 1 (Internal rating)	BR + 25 bps (9.90%)	BR + 35 bps (10.00%)	BR + 45 bps (10.10%)	BR + 55 bps (10.20%)	BR + 65 bps (10.30%)	BR + 75 bps (10.40%)
2	AA (External rating) or Grade 2 (Internal rating)	BR + 40 bps (10.05%)	BR + 50 bps (10.15%)	BR + 60 bps (10.25%)	BR +70 bps (10.35%)	BR + 80 bps (10.45%)	BR + 90 bps (10.55%)
3	A (External rating) or Grade 3 (Internal rating)	BR + 60 bps (10.25%)	BR + 70 bps (10.35%)	BR + 80 bps (10.45%)	BR + 90 bps (10.55%)	BR + 100 bps (10.65%)	BR + 110 bps (10.75%)
4	BBB (External rating) or Grade 4 (Internal rating)	BR + 80 bps (10.45%)	BR + 90 bps (10.55%)	BR + 100 bps (10.65%)	BR + 110 bps (10.75%)	BR + 120 bps (10.85%)	BR + 130 bps (10.95%)
5	BB (External rating) or Grade 5 (Internal rating)	BR + 100 bps (10.65%)	BR + 110 bps (10.75%)	BR + 120 bps (10.85%)	BR + 130 bps (10.95%)	BR + 140 bps (11.05%)	BR + 150 bps (11.15%)

* BR – Bencharmk Rate - Currently @ 9.65% p.a.

** The application of '+' (plus) or '-' (minus) signs associated with the rating category would have the same risk weights as prescribed by the norms.*

***Fee based projects are those projects where projects are awarded through bidding process and collections are made through regulated tariffs.*

****The rates would be determined in line with IIFCL's internal Risk Policy from time to time. The rate of interest shall be fixed/ floating at the option of the Borrower.*

At the time of Annual Review, if the account is rated upward, the benefit of rate would go to the borrower. In the event of downward rating, the borrower(s) have to pay higher rate of interest.

The rate of interest will be reviewed sector wise depending upon the market dynamics.

The above project classifications are based on the perceived risks. IIFCL shall not lend to any projects with rating lower than BB (or Grade 5 of Internal Rating).

Reset

On the date of reset, the interest rate shall be governed by the following:

- The Benchmark Rate of IIFCL (To be reviewed once in a quarter or as and when required).
- Revised risk profile of the project, as indicated by the migration of the external/ internal risk rating.
- Internal Risk Policy of IIFCL.