

Takeout Finance Scheme for Financing Viable Infrastructure Projects

1) 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', which is detailed below.

2) 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 will come into force from **16th April 2010**.

3) 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.

4) 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** means 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.

5) Eligibility

5.1 The Scheme will be extended to Lenders as defined in this Takeout Finance Scheme.

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; and
- International convention centers and other tourism infrastructure projects.”

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.

OR

Infrastructure projects which are yet to achieve financial closure as on the Effective Date.

6) Extent of takeout financing

6.1 IIFCL shall provide takeout financing to individual Lender(s) to the extent of 75% of the residual amount of the loan on the Scheduled Date of Occurrence of Takeout. 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.

7) 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.

8) Tenor of Takeout financing

- 8.1 The Scheduled Date of Occurrence of Takeout shall be 3 - 4 years after the scheduled Commercial Operation Date (COD) of the project. In case, the COD gets changed with the concurrence of the Lenders, the Scheduled Date of Occurrence of Takeout shall be changed accordingly.
- 8.2 The tenor of the Takeout Amount with IIFCL shall be up to 15 years. The amortization schedule of taken out loan by IIFCL will be structured to ensure that the last loan repayment is not scheduled beyond 80% of the Project Term.

9) Rate of Interest

- 9.1 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.

10) Takeout Fees

- 10.1 The Lender(s) availing the takeout finance from IIFCL under the Takeout Finance Scheme will pay a Takeout Fee not exceeding 0.3% p.a. (of the Takeout Amount) to IIFCL. Takeout Fee will be payable from the date of signing of the Takeout Agreement till the Scheduled Date of Occurrence of Takeout. Takeout Fee shall be payable at half-yearly intervals. Lender(s) may recover the Takeout Fees from the Borrower.

11) Appraisal, Monitoring and Recovery

- 11.1 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.
- 11.2 IIFCL will monitor the periodic evaluation of compliance of the project with agreed milestones and performance levels.
- 11.3 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.

12) 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 Take-out Financing, IIFCL direct lending to the project shall not exceed 10% of the project cost and total lending including Takeout Financing by IIFCL shall not exceed 30% of total project cost. The above exposure shall further be 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 project has achieved an average Debt Service Coverage Ratio (over **the 3- 4** years of operations) of at least 1.10.
- 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 Lenders, who have availed the Takeout Finance Scheme. Lender(s) may recover such costs from the Borrower.
