PGDM (IB), 2019-21

Project and Infrastructure Finance

IB-514

Trimester – V, End-Term Examination: December 2020

Time allowed: 2 Hrs 30 Min
Max Marks: 50

Roll No: ____________

Instruction: Students are required to write Roll No on every page of the question paper, writing anything except the Roll No will be treated as **Unfair Means.** All other instructions on the reverse of Admit Card should be followed meticulously.

Sections	No. of Questions to attempt	Marks	Total Marks
A	Minimum 3 question with internal choices and CILO (Course Intended Learning Outcome) covered Or Maximum 6 questions with internal choices and CILO covered (as an example)	3*10 Or 6*5	30
B	Compulsory Case Study with minimum of 2 questions	20	20
			50

SECTION A

1. Evaluate India's several initiatives to mobilise infrastructure funding from various sources including the private sector and long-term institutional investors recent years, India has taken several in line the publication by Indian Council for Research on International Economic Relations (ICRIER) in the year 2019. (CILO-2)
2. Construct a sample risk matrix during pre-construction, post-construction and risks common in both phases over a life cycle of an infrastructure finance. (CILO 4)
3. Based on the data given below pertaining to a project finance deal, compute the debt capacity. (CILO 3)

    1. Annual revenue Rs. 250 Mn
    2. Annual operating cost Rs. 120 Mn
    3. Annual revenue growth 5%
    4. Annual operating growth 4%
    5. Cost of debt 9.5%
    6. Cost of equity 13%
    7. Tax rate 33%
    8. Loan life is 14 years including moratorium
    9. Moratorium from the construction completion date: 2 years
    10. Lender demands 1.1 of Debt Service Coverage Ratio

4. Construct ten important provisions for Credit Agreement in project finance transaction including (i) condition precedent; (ii) repayment of loans in the event of canceling of facility; (iii) information flow from borrowers to lenders; (iv) Covenants; and (v) events of default. (CILO 1)
5. Construct security package provisions against the loan agreement and hedging agreements in a project finance transaction. Briefly justify other important finance agreements in project finance deals. (CILO 1)

SECTION B

(a) A Hong Kong based project company has mandated loan syndication arrangement of loan of USD 3300 million with one of the leading and reputed US Banks - Chase at a total success fee of 1.25%. Chase short listed 14 banks out of 32 banks who have responded to Chase's request to bid in the deal, all banks were the USA-based banks. After negotiation with a consortium of 15 banks the following deal (Figures given in table-1 are in USD) was closed. The sponsors asked you in the capacity of an advisor of the project to compute the allocation of success fees for each bank and as well as each class of banks in HK$. The computation should also include percent share of total fee among all participants and ROI for each bank. (CILO 3)

Table - 1

Loan Amount	3300	USD millions	Exchange Rate	1 USD = HK$ 7.8		
Underwriting Fee	1.25%					
Sub-underwriting fee	0.25%					
Closing fee	0.70%					
		Initial UW		**Sub-underwriting**		
	Number of Banks	Commitment per bank	Total Commitment	Allocation	Invitation Amt.	Total commitment
Chase - Mandated	1	3300	3300	660		300
Lead Arrangers	4		0	2640		1200
Tier 1 bank	4		0		250	1000
Tier 2 bank	4		0		150	600
Tier 3 bank	2		0		100	200
Totals	15	3300	3300	3300		3300

(b) Immaculate Identifiers plans to enter the radio frequency identification (RFID) market by developing software that would support the entire RFID supply chain. This requires a substantial investment including the hardware (RFID readers, tags, servers, etc.). The expected payoff from this project is estimated to be $500 million with an annual volatility factor of 50%. If the market conditions turn sour anytime during the next five years, the company is willing to abandon the project and recoup some of the investment by salvaging the hardware. Immaculate Identifiers expects the salvage value of the assets to decrease by 30% annually, starting at $300 million for the first year. The company is interested in calculating the value of the abandonment option given a continuous annual risk-free interest rate of 5% over the next five years. (CILO 4)