\<Project and Infrastructure Finance\>

\<Subject code: DM-514/IB - 505\>

Trimester – V, End-Term Examination, Dec. 2014

\<PGDM and PGDM (IB) 2013-15)\>

Time allowed: 2-1/2 Hours   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**. In case of rough work please use answer sheet.

Sections	No. of Questions to attempt	Marks	Marks
A	3 out of 5 (Short Questions)	5 Marks each	3*5 = 15
B	2 out of 3 (Long Questions)	10 Marks each	2*10 = 20
C	Compulsory Case Study	15 Marks	15
		Total Marks	**50**

SECTION – A

A1. International Finance Corporation recently concluded first tranche of Rupee Bond Programme for financing of infrastructure in India. What are the benefits of such initiatives for Indian Capital Market?

A2. Describe types of sponsors in project finance deal.

A3. The sponsors may be concerned about the phenomenon of dividend trap while undertaking equity structure of the project and lenders may be also concerned about extra withdrawal of cash flows by the sponsors and impose a claw back clause in the agreement with the sponsors. Succinctly explain the concepts of 'dividend trap' and 'claw back clause'

A4. What are the different categories of re-finance practiced in project finance?

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A5. What kind of agency problems is faced between ownership vis-à-vis control aspects in project finance? How are they managed?

SECTION – B

B1. The construction phase of a copper mining project has been estimated to be 5 years with project cost of Rs.2000 million rupees. SPV was incorporated with the set up cost of Rs. 35 million and during the construction phase, the revenue cost of Rs. 25 million per annum and interest during construction are to be capitalized will be part of the funding requirement. Compute the amount of debt and equity if 75% of gearing with 12% cost of debt. The project cost is phased out as Rs. 200/-Mn., 500/- Mn., 500/-Mn., Rs.400/- and 400/- Mn. over the first five years of construction.

B2 Questions (a) and (b) given below are parts of question B3 and each carries five marks

      a. Compare syndicated bank loan, private placement of debts and public loan.

      b. Explain operating lease, financing lease, leveraged lease and guarantee lease used in infrastructure finance

B3. How does the government of India ensure competition for the market in case of public-private partnership in Infrastructure projects?

SECTION – C

RISK MANAGEMENT IN INDEPENDENT POWER PROJECT

Project finance is the financing of projects based on a non-recourse financial structure, where the project debt and returns are paid solely from the revenues generated by the project. The management of risk is an important feature of project finance because risk management helps determine the viability of a project. It functions to protect the revenues earned by project since a project's value is closely intertwined with its isolated and assignable cash flow.

In project finance, the most important element is the protection of the project's isolated and assignable cash flow. This is the source of funds used to operate and manage the project, but more importantly, to service debt. It is essential that the risks do not adversely affect project cash flow to such an extent to that the project is no longer able to operate and debt repayment becomes problematic. It is for this reason that the relationship between project risks and project cash flow be thoroughly understood to ensure a project's success.

Power plants are an essential part of the development of any society and because of the huge costs involved with their construction, the risks associated with the supply of fuel and the demand of the market, power projects require special attention. This scarcity of economic rent often stems from strict governmental regulations on price. Governments give out concessions to a project company to build a power plant according to certain specifications – this is normally done according to a BOT or BOO

scheme. The project company then contracts a contractor to build the plant, finds a stable fuel supply (e.g. gas or coal) and contracts an operator to operate the plant. It is imperative to identify the risks associated with independent power generation projects. This includes identifying the reasons why these risks arise and the ways these risks are mitigated.

As with any project that is project financed, the utmost concern of the lenders is ensuring that the debt is serviced with interest with funds produced from the project itself. Therefore, it is important that the connection between project risks and project cash flow be fully understood in order to accurately determine the viability of the project.

Power generation is a growth area, particularly in the developing countries like India, where the pace of economic expansion is being slowed by a shortage of available electricity. Often, local governments do not have the necessary capital to build required Power Stations and, therefore, look to foreign developers to provide financing and expertise.

The Independent Power Project (IPP) financing, with particular reference to the issues that might arise in a developing country. The uncertain attitude of investors and lenders to projects in developing countries changes quite quickly, as projects are successfully completed and the perceived risks (particularly country-specific risks) do not eventuate. Investors and lenders may be further reassured by the fact that external support and certain allocations of risk that are fundamental (or perceived to be so) for the success of the first couple of projects in a country will probably become superfluous over time.

You must seek to identify the key issues of IPP financing in terms of risks: what are the principal risk allocation problems, and how can they be approached; when and how is Force Majeure relevant and how can it be addressed.