Project and Infrastructure Finance

Subject code: DM-514

Trimester – V, End-Term Examination, Dec. 2017

PGDM (2016-18)

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

A-1 Mobilization of funds considering relevant perspective is the need of the hour. In what situations and through what instruments funds are mobilized in acquisition finance, securitization, corporate finance and project finance are appropriate?

A-2 Comment on "Preparing Bankable Infrastructure Projects"

A-3 Comment on "participants found in all project finance deals and participants found in many, but not all, project finance deals"

A-4 What are the recently measures taken by Reserve Bank of India to help flow of funds for infrastructure projects?

A-5 Briefly explain mission or charter of any two multilateral/ bilateral funding agencies relevant to India

SECTION – B

B-1 Sponsor(s) play a crucial role during money-raising stage in project and infrastructure finance. Explain these roles under the following dimensions in your words.

1. Designing of financial model
2. Securing the lowest financing costs
3. Achieving highest risk-reward trade-off possible
4. Minimizing its liabilities to the project

19

5. Avoiding consolidation of the assets and liabilities of the project on the corporate balance sheet.
6. Maximizing value of tax benefits of ownership
7. Achieving beneficial regulatory treatment.
8. Negotiating for the highest level of control possible over the project in light of lenders' constraints

B-2 A copper mining project desires to compute debt capacity based on the DSCR of 1.5. Market price of copper hovers around Rs.4.15 per KG with estimated extraction of 1100 lakh KGs. Cash operating expenses is around Rs. 2.60 per KG with income tax rate of 33%.

Lenders are willing to extend loan for not more than 12 years with 3 years moratorium at pre-tax rate of 12% per annum. Annual Growth rate of cash revenues and of cash expenses are 5% and 4% respectively. Assume non-cash deductible for tax purpose is zero and WACC is 15%.

B-3. Assume for the purpose a 10 MW gas-fired power plant costing US$ 8 million. The sponsor(s) is planning to finance 80% of the project cost (i.e., US$6.4 million) from debt (with a 9.5% annual interest rate from bank) and the rest (i.e., US$1.6 million) from equity. We should ignore the construction period.

Other assumptions regarding the proposed plant are as follows:

1. PPA term 15 years
2. Plant load factor 85% per year
3. Fuel price (subsidized) US$I.IS/GJ (gigajoule)
4. Heat rate 7,500 kJ/kWh
5. Fixed O&M rate US$53,000/MW
6. Variable O&M rate US$0.0013/kWh/year
7. Loan period 12 years, including a two-year grace period for principal after commissioning.
8. The sponsors is planning to get 20% IRR

Compute the yearly tariff of power generation per unit.

SECTION – C Case Study:

In late 2016, the WD Co. and the Hong Kong government agreed to develop 2nd HK Disneyland. The estimated cost at HK$28 (U.S.$3.6) billion for theme park and resort complex is planned to be opened in late 2019. As part of the total financing package, the sponsors decided to raise HK$3.3 billion of non-recourse bank loans for construction and working capital, and selected Chase Manhattan Bank to underwrite and syndicate these facilities. The Chase team designed the process by which it can successfully compete to lead this transaction jointly with other local bank. The key questions facing Chase were whether to bid at all, how to bid, and how to structure the syndication to meet the borrower's needs, its own profit objectives, and the market's expectation for an attractively priced credit. The Chase Manhattan Bank team won the deal along with a joint mandated bank and they were to mobilise HK$3300 million for HK Disney Theme Park. It is interesting to note that general syndication call was oversubscribed to HK$ 5100 million as result of general syndication through various arranger / co-arranger / lead-arranger. The Chase team finalized the general syndication as per the table given below (Figures in million):

Titles	Number of Banks	Initial Undertaking	Individual allocation	Percent of total	Negotiated Fee
Mandated lead arranger - Chase	1	HK$ 1650	300	9.1%	
Joint	1	HK$ 1650	300	9.1%	

20

mandated lead arranger					
Arranger	4		250	30.3%	75 bp
Co-arranger	6		150	27.3%	60 bp
Lead Manger	8		100	24.2%	50 bp
Total	22	HK$ 3300		100%	

The economics for a joint-mandated deal was in the range of the 100 bp to 150 bp based on the recent trend of the market on successful closing the deal. How do you propose to allocate the fees among all the participants including underwriting fees? Your relevant and appropriate assumptions will be appreciated if the information is incomplete at places.

21