

Asia-Pacific Transport Deal of the Year 2013: Essel Lucknow

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In 1998 The National Highways Authority of India (NHAI) launched The National Highway Development Project (NHDP), with the aim of alleviating congestion on the countrys overburdened highways. The NHDP covers the upgrading, rehabilitation and widening of about 50,000km of highways in India. The project has seven phases, with Phase 1 (Golden Quadrilateral) and Phase 2 (North South East West Corridor) close to completion.

The government approved the NHDP phase 3 the expansion to four or six lanes of 12,109km of national highways on a build, operate and transfer (BOT) basis in 2007. The phase breaks down into two sub-phases Phase 3A (4815km) and Phase 3B (7294km), with 76% complete or under construction.

In July 2012 NHAI awarded Essel Group the 17-year concession for the expansion to four lanes of the Lucknow-Raebareli portion of the NH24B in the state of Uttar Pradesh. The NH-24B is a key highway that connects the state capital (Lucknow) with the populous region of Allahbad. Essel signed the financing for the \$119 million project in December 2012 and closed the financing in February 2013.

The debt breaks down into two commercial bank tranches a \$46 million tranche from Standard Chartered and a \$37 million equivalent rupee-denominated tranche from local banks as well as a \$12 million subordinated debt facility from the India Infrastructure Finance Company (IIFCL). The sponsor initially signed a local bank tranche that would meet the entire debt requirement. But it was also looking to lower its debt costs and improve equity returns, and approached Standard Chartered to help it achieve this.

The sponsor was under pressure to complete negotiations for any foreign bank tranche as quickly as possible, because under the concession agreement it had six months from the date of the award to close the projects financing. Essel might have incurred penalties from local lenders if it changed the financing structure, and had to make sure that these lenders were comfortable with any changes.

Standard Chartered provided a loan with a tenor of 13.7 years that was priced at 435bp over Libor during construction and 400bp for the remainder of the loan. Repayments take place as 23 semi-annual instalments following a grace period of two years and five months, with drawdown occurring on 27 February 2013. The tranche features one of the longest tenors on an external commercial borrowing loan market for an Indian non-recourse borrower.

The companys revenues are in rupees, and a dollar loan liability results in currency and interest rate risk. Therefore hedging the interest rate/FX risk was crucial in this transaction, says VS Sampath Kumar, director, project finance at Standard Chartered. The FX market in India is not

Essel Lucknow Raebareli Toll Roads Private Limited

STATUS

Signed 27 December 2012,
financial close February 2013

SIZE

\$119.79 million

DESCRIPTION

Development and construction of a four-lane 70km expansion of the Lucknow-Raebareli section of NH-24B in the state of Uttar Pradesh, India.

GRANTOR

National Highway Authority of India (NHAI)

EQUITY

\$24 million

SPONSOR

Essel

DEBT

\$95 million

DOLLAR TRANCHE

ARRANGER

Standard Chartered
(MLA, facility agent, hedging bank, structuring bank)

RUPEE TRANCHE ARRANGERS

Yes Bank, Oriental Bank of Commerce, Dena Bank, Corporation Bank, Vijaya Bank, United Bank of India

LENDERS LEGAL ADVISER

Amarchand & Mangaldas & Suresh A Shroff & Co

SPONSORS LEGAL ADVISER

Clifford Chance, Amarchand & Mangaldas & Suresh A Shroff & Co

EPC CONTRACTORS

very liquid for longer tenors and very few banks have the capability to provide long dated hedging solutions.

Pan India Infrastructure

Standard Chartered, as the hedging bank, provided the project with an at-the-money call option that protects it against any depreciation of the rupee in relation to the dollar and allows the borrower to benefit from any appreciation of rupee against the dollar.

The 15.5-year rupee-denominated local bank tranches lead arranger was Yes Bank, with Oriental Bank of Commerce, Dena Bank, Corporation Bank, Vijaya Bank and United Bank of India also arranging the debt. The subordinated debt facility has a similar tenor, with financing rounded out with \$24 million in equity from the sponsor. The financing, which is based on annuity payments from the NHAI and does not feature traffic risk, has an annual debt service coverage ratio of 1.1x.

The project is the third contract Essel has won under the NHDP, following the four-lane expansions of the Ahmedabad to Godhra section of NH-59 in the state of Gujarat (\$186.4 million) and the Gwalior-Shivpuri section of NH-3 in the state of Madhya Pradesh (\$242 million), which are at various stages in their financing. Essel has also been pre-qualified for the \$121 million four expansion of the Ludhiana-Talwandi section of NH-95.

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