

Italy's Strada dei Parchi refinancing

René Lavanchy

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The saying that every problem is a potential opportunity holds good for the refinancing and development of the Strada dei Parchi concession in central Italy.

The need to take out a short-term debt facility came as the concessionaire of the A24 and A25 autostrade needed to upgrade the road to increase capacity coming out of Rome. The resulting competitive financing package, covering both the upgrade works and the refinancing of existing debt, has been hailed as a benchmark for Italian road projects. Whether it can be replicated elsewhere in a country looking to upgrade its national road network, however, is far from clear.

Background & Procurement

Autostrada dei Parchi is the collective name for the A24, a 166.5km road running from Rome through L'Aquila to Teramo, and the A25, a 115km road linking Torano to Pescara on the Adriatic coast, the major city of the Abruzzo region. The two roads connect at an interchange outside the small town of Torano, about halfway along the A24's length. Like all of Italy's toll roads, they are operated on a real toll basis and in the absence of other transport links connecting the capital to the opposite coast, enjoy healthy traffic.

In 2002 a 28-year concession was awarded to Strada dei Parchi, a 60:40 Toto Costruzioni-Autostrade joint venture, to operate the roads. Then in 2008, SdP closed a short-term financing worth €186 million (US\$ 272.5 million) for an initial phase of upgrading works. Debt was provided in the form of a €167.5 million (US\$ 248.1 million) bridge loan from Dexia and Société Générale, with a term of 1.5 years. However, as interest in taking out the facility became clear, the term was extended.

It was around the early spring of 2010 when the two lenders went out to other banks active in the Italian market over taking out the debt and financing an estimated €300 million of upgrades between 2011 and 2013. About €600 million was being sought.

Project Description

The main works would see the A24 revamped over a 14km stretch between Via Palmiro Togliatti and the junction with the Tangenziale Est Roma bypass [\[Transactions Database\]](#). The works would separate long-distance from suburban traffic using the road, and thus free up capacity. The high cost was due to the urban character of the area and the need to carry out extensive archaeological surveys before works could begin. Archaeological risk was shared between the sponsors and the public sector in the shape of grantor ANAS.

Legance was legal adviser to the lending group, Steer Davies Gleave provided technical and traffic advice, and Marsh was insurance adviser.

For the authority, Chiomenti provided legal advice. PwC was model auditor.

Financing

Due to Italy's sizeable taxation of debt interest payments on foreign lenders, interest in the deal was restricted to banks with an Italian presence. Nevertheless, the deal was almost doubly oversubscribed and lenders were obliged to scale down their commitments.

By the autumn of 2010, debt had been fully committed by six banks and all that remained was for ANAS to fine-tune the deal to ensure bankability.

Alongside the two structural banks, who were committed to providing new loans, three Italian banks – UniCredit, Italy's largest bank by assets, Intesa and Monti dei Paschi Siena Capital Services - had agreed to lend, plus ING, with an established presence in Italy.

Contracts were eventually signed on the refinancing on 25 February 2011 and debt became available for drawdown on 30 March.

A 17-year, €570.5 million financing package was agreed with the following tickets:

- ING - €59.5 million
- Société Générale – €40 million
- Unicredit - €59.5 million
- Intesa - Banca Infrastrutture Innovazione e Sviluppo - €49 million
- Monti dei Paschi Siena Capital Services - €49 million
- WestLB - €51.5 million

Cassa Depositi e Prestiti and SACE were also in for €150 million and €50 million respectively in the form of a 17-year B loan.

The debt package was split as follows:

- € 280 million A loan to refinance existing activities
- € 200 million B loan
- € 40 million standby loan
- € 30 million grant revolver
- € 20.5 million performance bond facility (arranged by Dexia)

Also included was a planned €557 million servicing for the duration of the concession, due to expire in 2030.

The debt service cover ratio is thought to be 1.2 to 1.3 and pricing is in the region of 200-250 bps above Euribor.

Commenting on the deal, Gabriele Pescarini, head of structured finance in Dexia Crediop who led the structuring bank's transaction, said: "It's a key transaction for Italy as it is the first project financing in the motorway industry. It will be considered as a model for future financial transactions in this field that require in Italy a financial volume of several billion euros."

Massimiliano Battisti, head of infrastructure project finance at Société Générale CIB, said: "The transaction is a further confirmation of the ability of the bank to lead the organisation of benchmark projects in the infrastructure industry in Italy after the successful recent transactions in the underground, industrial harbours and renewable energy fields."

Conclusion

A remarkable feature of this project is the willingness of lenders to commit to a project that was to be run exclusively by Toto Costruzioni, a contractor little-known on the international stage. In late 2010 Atlantia, which Autostrade had been

renamed in 2007, moved forward with plans to sell its 40 per cent stake in SdP to Toto. Despite this, banks remained committed.

This is a measure of two factors: the proven traffic revenues on Autostrada dei Parchi, reinforced by due diligence carried out by Steer Davies Gleave for the initial 2008 upgrade, and the low commercial risk. The upgrade works were projected to increase capacity and therefore revenue on the road; however, this uplift in revenue was superfluous to the banks, whose debt could be serviced from the then-baseline.

The Italian government is keen to accelerate the expansion and upgrading of the road network, and meanwhile a number of concessions are due to expire in the next few years, with resultant opportunities to secure upgrades from new bidders. One key project in financing is the upgrade of the A4 Mestre-Trieste road run by Autovie Venete [[Transactions Database](#)].

Strada dei Parchi's upgrades are the first properly project financed motorway upgrade programme in Italy funded by limited recourse debt. If it could be replicated across the country, the government would doubtless be pleased; in practice, however, other roads have less proven revenues and not all concessionaires are so diligent in providing traffic forecasts and due diligence. This is already being seen in the A4 deal, which has a healthy lending group in place although some banks have been put off by the absence of due diligence at this stage.

Other concessionaires, it seems, would do well to follow Toto and Atlantia's example – and that includes Atlantia itself, as the operator of over half the country's autostrade.

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