Takeout Finance Scheme for Financing Viable Infrastructure Projects

Preamble

In the Union Budget speech for the year 2009-10, the Hon'ble Union Finance Minister stated "*To stimulate public investment in infrastructure, we had set up the India Infrastructure Finance Company Limited (IIFCL) as a special purpose vehicle for providing long term financial assistance to infrastructure projects. We will ensure that IIFCL is given greater flexibility to aggressively fulfil its mandate. Takeout financing is an accepted international practice of releasing long-term funds for financing infrastructure projects. It can be used to effectively address Asset-Liability mismatch of commercial banks arising out of financing infrastructure projects and also to free up capital for financing new projects. IIFCL would, in consultation with banks, evolve a takeout financing scheme, which could facilitate incremental lending to the infrastructure sector*". As a follow-on action, IIFCL undertook a consultative process with key stakeholders and has formulated a 'Takeout Finance Scheme'. The Empowered Committee, in its 15th meeting held on December 1, 2011, 17th meeting held on 18th September, 2013 18th meeting held on 18th June 2014 and 19th meeting held on 27th January 2015 modified certain features of the Takeout Finance Scheme. The modified Takeout Finance Scheme is detailed below.

Short Title and Extent

2.1.The Scheme will be called the Takeout Finance Scheme for financing Viable Infrastructure Projects.

2.2. The Takeout Finance Scheme came into force from 16th April 2010*.

Objectives of the Takeout Finance Scheme

3.1. To boost the availability of longer tenor debt finance for infrastructure projects.

3.2. To address sectoral / group / entity exposure issues and asset-liability mismatch concerns of Lenders, who are providing debt financing to infrastructure projects.

3.3. To expand sources of finance for infrastructure projects by facilitating participation of new entities, i.e., medium / small sized banks, insurance companies and pension funds.

Definitions

In this Scheme unless the context otherwise requires:

- **Borrower** means the legal entity which is implementing the infrastructure project to which assistance is to be given by the IIFCL under the Takeout Finance Scheme.

- **Common Loan Agreement** means the Agreement signed between Lenders and the Borrower.

- **Effective Date** means 16th April 2010.

- **IIFCL** means the India Infrastructure Finance Company Limited (A company incorporated under the Companies Act, 1956).

- **Lenders** mean any of the scheduled commercial banks, or any other participating entity (ies) except insurance companies, who have extended loans under the Common Loan Agreement to the Borrower. For avoidance of doubt, promoter(s) of the Borrower or the affiliates of the promoter(s) shall not constitute Lenders consequent to any debt financing extended by such promoter(s) and / or any of their affiliates to the Borrower.

- **Project Term** means the duration of the project contract or concession agreement for an infrastructure project.

- **Scheduled Date of Occurrence of Takeout** means the date on which takeout is scheduled to occur as per the terms of the Takeout Agreement.

- **SIFTI** means Scheme for Financing Viable Infrastructure Projects through a Special Purpose Vehicle called India Infrastructure Finance Co. Ltd. (IIFCL) and implemented by IIFCL.

- **Takeout Agreement / Agreement** means the agreement entered into by IIFCL, identified Lender(s) and Borrower, pursuant to the provisions of the Takeout Finance Scheme.

- **Takeout Amount** means the aggregate amount of the residual loan agreed to be taken out by IIFCL on the Scheduled Date of Occurrence of Takeout, pursuant to the Takeout Agreement.

- In this Takeout Scheme unless the context otherwise requires, all Capitalized terms used and not defined herein shall have the meaning assigned to them under the SIFTI (Scheme for Financing Viable Infrastructure Projects through a Special Purpose Vehicle called India Infrastructure Finance Co. Ltd. (IIFCL) and implemented by IIFCL.

Eligibility

5.1. The Scheme will be extended to Lenders and proposal can be received by IIFCL either from Borrower(s) or from Lender(s).

5.2. In order to be eligible for the Scheme, the infrastructure projects need to satisfy the following conditions:

1. The infrastructure project should be from sector(s) as defined in clause 5.2 (c) of SIFTI, which currently reads as under:

"The project should be from one of the following sectors:

S.No.	Category	Infrastructure sub-sectors
1	Transport	Roads and bridges Ports [1] Inland Waterways Airport Railway Track, tunnels, viaducts, bridges,[2] Urban Public Transport (except rolling stock in case of urban road transport)
2	Energy	Electricity Generation Electricity Transmission Electricity Distribution Oil pipelines Oil/Gas/Liquefied Natural Gas (LNG) storage facility[3] Gas pipelines[4]
3	Water Sanitation	Solid Waste Management Water supply pipelines Water treatment plants Sewage collection, treatment and disposal system Irrigation (dams, channels, embankments etc.)

		Storm Water Drainage System Slurry Pipe Lines
4	Communication	Telecommunication (fixed network)[5] Telecommunication towers Telecommunication & Telecom Services
5	Social and Commercial Infrastructure	Education Institutions (capital stock) Hospitals (capital stock)[6] Three-star or higher category classified hotels located outside cities with population of more than one million Common infrastructure for industrial parks, SEZ, tourism facilities and agriculture markets Fertilizer (Capital investment)# Post harvest storage infrastructure for agriculture and horticultural produce including cold storage Hotels with project cost of more than Rs.200 crores each in any place in India and of any star rating[8] Terminal markets Soil-testing laboratories; Cold Chain[7] Convention Centres with project cost of more than Rs. 300 crore each[8]

#w.e.f 26th November 2014, Fertilizer (capital investment) is not an eligible sub-sector for financing by IIFCL.

Notes

1. *Includes Capital Dredging*
2. *Includes supporting terminal infrastructure such as* loading / unloading terminals, stationsand buildings
3. *Includes strategic storage of crude oil*
4. *Includes city gas distribution network*
5. *Includes optic fibre / cable networks which provide broadband / internet*
6. *Includes Medical Colleges, Para Medical Training Institutes and Diagnostics Centres*
7. *Includes cold room facility for farm level pre-cooling, for preservation or storage of agriculture and allied produce, marine products and meat.*
8. *Applicable with prospective effect from 29.11.2013; available for eligible projects for a period of 3 years; Eligible costs exclude cost of land & lease charges but include interest during construction.*

The above list of sectors will be kept in line with the clause 5.2 (c) in SIFTI and its subsequent modifications, if any.

2. Infrastructure projects which have achieved financial closure and have a residual debt tenor of at least 6 years.

3. Projects where provisional COD has been declared.

Extent of takeout financing

6.1. IIFCL shall provide takeout financing to individual Lender(s) to the extent of *100%* of the residual amount of the loan on the Scheduled Date of Occurrence of Takeout. In the case of Lead Bank, IIFCL shall provide takeout finance to the extent of 75% of residual amount of loan. However, the total Takeout Amount cannot exceed 51% of the total residual loan of the infrastructure project on the Scheduled Date of Occurrence of Takeout.[1]

Takeout Agreement and its timing

7.1. IIFCL, the identified Lender(s) and the Borrower shall enter into a tripartite agreement, i.e., Takeout Agreement pursuant to the Takeout Finance Scheme.

7.2. For projects where financial closure is yet to be achieved, IIFCL will enter into a Takeout Agreement at the time of financial closure of the project. Such Agreement will be signed along with the Common Loan Agreement for the project.

7.3. Projects where financial closure has been achieved and having a residual debt tenor of at least 6 years, IIFCL will enter into a Takeout Agreement when the relevant Borrower and Lender(s) approach IIFCL any time on or after the Effective Date.

7.4. IIFCL may consider "in principle" approval of Takeout in Public Private Partnership (PPP) Infrastructure Projects approved by PPPAC/EC/EI at pre-bid stage subject to conditions in accordance with the provisions of the Takeout Finance Scheme.

Tenor of Takeout Financing

8.1. The disbursement of Takeout generally shall take place one year after the actual Commercial Operation Date (COD) or Provisional COD of the project except in cases of PPP Roads projects (annuity basis), PPP Power Transmission projects (approved by PPPAC/EC/EI) and such other sector as may be approved by the Empowered Committee, where the take out can take place immediately after COD or Provisional COD. However in all

cases debt service capability should be assessed before considering them for takeout immediately after COD or Provisional COD.

8.2. The tenor of the Takeout Amount with IIFCL should not exceed 85% of the economic life of the project . In case of PPP projects approved by PPPAC/EC/EI which have provision of compulsory buyback by the authority on termination, IIFCL can remain as sole lender after other lenders are paid out.

8.3. In case of non- PPP Electricity generation projects having long term power purchase agreements with state utilities for majority of its capacity, IIFCL can remain as sole lender after other lenders are paid out; however, the tenor of IIFCL Takeout should not exceed 85% of the economic life of the project. In case of such non –PPP projects where IIFCL offers takeout of tenor longer than tenor of existing lenders, IIFCL's risks be covered by seeking guarantees from the holding company or any other form of recourse.

Rate of Interest

9.1. The rate of interest for the loan taken-out by. IIFCL on the Scheduled Date of Occurrence of Takeout be subject on the basis of credit risk rating of two reputed rating agencies Post CoD and reflected through the Base Rate plus the risk premium. Detailed guidelines for the same are as given in **Annexure** to this document.

Takeout Fees

10.1. The borrower(s) availing the takeout finance from IIFCL under the Takeout Finance Scheme will pay a Takeout Fee to IIFCL @ of 30%*(difference in interest rate * amount of loan taken out), which will be passed on to the lender(s) by IIFCL.

10.2 However, Takeout fee may not be payable in cases where the borrowers are required to remit pre-payment fees / charges and the borrower may either remit pre-payment fees / charges or the takeout fee.

Appraisal, Monitoring and Recovery

11.1. The Takeout Agreement will be signed by IIFCL, subject to it being satisfied with the appraisal done by reputed appraising institutions and the same being accepted and adopted by the Lead Bank and subject to its own due diligence process.

11.2. IIFCL will monitor the periodic evaluation of compliance of the project with agreed milestones and performance levels.

11.3. IIFCL with the Lead Bank / consortium Lender shall be responsible for regular monitoring and periodic evaluation of compliance of the project with agreed milestones and performance levels. The Lead Bank / Lender shall send periodic progress reports in such form and at such times, as may be prescribed by IIFCL.

Other features of the Takeout Finance Scheme

- For infrastructure projects eligible for the Takeout Finance Scheme but yet to achieve financial closure as on the Effective Date, IIFCL may also take certain direct exposure under SIFTI along with the Lenders.
- In case of Takeout Financing IIFCL's total exposure including direct lending shall not exceed 30% of the Total Project Cost, subject to applicable regulatory norms.
- After entering into Takeout Agreement, in case any fraud or forgery committed by the Borrower comes to the notice of IIFCL, the Takeout Agreement shall stand terminated.
- On the Scheduled Date of Occurrence of Takeout, the takeout will be executed in respect of only those loans, which are classified as standard assets in the books of the Lenders who have signed the Takeout Agreement.
- On the Scheduled Date of Occurrence of Takeout, the takeout will be executed if the Debt Service Coverage Ratio of the project is same as in the case of lenders and in no case lower than 1.0.
- Subject to the provisions of the Takeout Finance Scheme, at the time of occurrence of takeout, it will be the obligation of the Lender(s) and IIFCL, who have entered into Takeout Agreement, to effect the takeout without any protest, contest or demur.
- At any time before or after occurrence of takeout, the Borrower will have the option to prepay the loans pursuant to the relevant provisions of the Common Loan Agreement and Takeout Agreement.
- After entering into the Takeout Agreement but before the loans are taken out, if Lenders propose any change in the loan terms, i.e., restructuring of loan or related matters, IIFCL will be invited to attend the relevant meeting of Lenders to be held pursuant to the Inter- Creditor

Agreement and IIFCL's views will be taken into consideration by Lenders in keeping with the spirit of the Takeout Agreement. If IIFCL is not agreeable to restructuring of loans, it will have an option to opt out of the Takeout Agreement.

- After the loans are taken out, IIFCL will become a party to the Inter-Creditor Agreement.
- IIFCL will have the option to restructure loans taken out to suit the project ground realities and the cash flows. Such restructuring may include increasing the extent of debt funding in the project if allowed by the project cash flows. However, such an option will be exercised in accordance with the provisions of the Inter Creditor Agreement.
- Any amount of debt raised to fund any cost overrun in the project shall only be covered if the same has been agreed to by the Lenders.
- Once takeout is effected pursuant to the Takeout Agreement, IIFCL's security interest in the project's assets and cash flows shall rank pari passu with senior debt extended by the Lender(s).
- The legal cost including stamp duty shall be borne by the Borrowers who have availed the Takeout Finance Scheme.

ANNEXURE

Board of Directors in their 85th Meeting held on 15th May 2017 has approved the revision of Interest Rate Matrix for Modified Take Out Finance scheme.
The revised Matrix is as follows:-

Proposed ROI Matrix for Takeout Finance by IIFCL					
External rating of SPV/ Co.	AAA	AA	A	BBB	BB
PPP Annuity projects including transmission and HAM projects	BR	BR+5 bps	BR+10 bps	BR+15 bps	BR+100 bps
PPP Toll/ PPP Fee based/PSU Projects/ Renewable Power Projects with regulated tariff	BR+ 5 bps	BR+10 bps	BR+15 bps	BR+25 bps	BR+110bps
All Private/ Non PPP/ Bided (Non-PPP)/ Renewable Power Projects with non-regulated tariff	BR+15 bps	BR+20 bps	BR+25 bps	BR+35 bps	BR+130 bps

The application of '+' (plus) or '-' (minus) signs associated with the rating category would have the same risk weights as prescribed by the norms.

***Fee based projects are those projects where projects are awarded through bidding process and collections are made through regulated tariffs.*

The rates would be determined in line with IIFCL's internal Risk Policy from time to time. The rate of interest shall be fixed/ floating at the option of the Borrower.

At the time of Annual Review, if the account is rated upward, the benefit of rate would go to the borrower. In the event of downward rating, the borrower(s) have to pay higher rate of interest.

The rate of interest will be reviewed sector wise depending upon the market dynamics. The above project classifications are based on the perceived risks. IIFCL shall not lend to any projects with rating equal to or lower than BB.

Reset

On the date of reset, the interest rate shall be governed by the following:-

The Benchmark Rate of IIFCL (To be reviewed once in a quarter or as and when required).

Revised risk profile of the project, as indicated by the migration of the external/ internal risk rating.