📌 TERM LOANS 🏢💰

CHAPTER – 21 PART 2 ABM MODULE C BY ASHISH SIR

📌 Project Appraisal & Infrastructure Financing 🏗️📊

📌 Steps in Project Appraisal 🏢

Project appraisal is the evaluation of a proposed project to determine its **viability, feasibility, and sustainability**. This involves three key assessments:

Step	Key Considerations
(a) Appraisal of Managerial Aspects 🧑💼	✅ Who are the **promoters** & their credentials? 📜 ✅ Financial stake of promoters 💰 ✅ Ability to **bring additional funds** during contingencies 📥 ✅ Form of business organization (Partnership, Pvt. Ltd., Public Ltd.) 🏢 ✅ Key management personnel & their experience 🎯
(b) Technical Appraisal 🏗️	✅ **Location** of the project 📍 ✅ **Product/ Service** being offered 📦 ✅ **Production process & technology provider** ⚙️ ✅ Availability of **raw materials & infrastructure** 🏭

	☑ **Pollution control & waste disposal** ♻ ☑ **Marketing Arrangements** 📢
(c) Economic Appraisal 💰📈	☑ **Return on Investment (ROI)** - NPV, IRR, Payback Period 🏢 ☑ **Break-even Analysis** – At what point does the project start making profit? 📊 ☑ **Sensitivity Analysis** – Impact of price fluctuations on viability 📉

☑ **Example:** 🚇 **A new metro rail project in Mumbai** needs a detailed appraisal of **technical feasibility**, **economic viability**, and **management capabilities** before banks sanction loans.

📌 Infrastructure Project Financing 🚧

Infrastructure projects like **roads, bridges, railways, power plants, airports, and telecom networks** require **special financial structuring** due to their **long-term nature**.

Feature	Key Considerations
📅 **Long Gestation Period**	Infrastructure projects take **years to complete** before generating revenue 🏗
💰 **High Debt-Equity Ratio**	Heavy borrowing due to **huge capital investment** required 📈
⏳ **Extended Payback Period**	Revenue generation starts **after several years** of project completion
📜 **Regulatory Risks**	Subject to **government policies, environmental**

	clearances, and legal approvals
🚀 **Public-Private Partnerships (PPP)**	Many projects are funded through **PPP models** to share financial risks 🤝
🏢 **Special Loan Structures**	Infrastructure projects use **long-term loans, ECBs, and Bonds** for funding 📜

✅ **Example:** 🚧 **Mumbai Trans-Harbour Link (MTHL) Project** – India's **longest sea bridge** is funded through a **combination of government funding, loans from JICA (Japan), and bank financing.** 🏗️🌉

📌 RBI Guidelines for Infrastructure Financing 🏢

💠 RBI has set special **guidelines** for infrastructure project financing due to **large funding requirements & risks**:

☑️ **Infrastructure projects are eligible for long-term financing up to 20-25 years**

✅ **Banks must conduct stress tests & risk assessments before financing**

✅ **Projects must ensure adequate Debt Service Coverage Ratio (DSCR)**

✅ **Lenders prefer projects with government backing or Public-Private Partnership (PPP)**

📌 Key Takeaways 💡

✔ **Project Appraisal = Evaluation of Managerial, Technical, and Economic Feasibility**

✔ **Economic Appraisal → ROI, Break-even & Sensitivity Analysis**

✔ **Infrastructure Financing = High debt, long payback period, regulatory risks**

✔ **RBI Guidelines ensure risk management & proper loan structuring**

📌 **Proper project appraisal ensures banks finance only viable & profitable projects!** 💰🏢

📌 RBI Guidelines for Infrastructure Project Financing 🏗📜

📌 Types of Financing by Banks 🏢

RBI has laid out various **financing mechanisms** to support **infrastructure projects**. These include:

Financing Type	Description
📜 **Take-Out Financing**	✅ Banks enter agreements with **IDFC/other financial institutions** for infrastructure funding. ✅ Liquidity support is available from **IDFC/ other institutions**.
🏢 **Inter-Institutional Guarantees**	✅ Banks can issue **guarantees** favoring other lending institutions for infrastructure projects. ✅ The issuing bank **must invest at least 5% of the project cost**.
📊 **Financing Promoter's Equity**	✅ Banks can **finance acquisition of promoter's equity** in infrastructure projects **under certain conditions** (See below).

📌 Conditions for Financing Promoter's Equity 💰

Banks can provide funding for **acquiring shares in existing infrastructure companies**, subject to **strict conditions**:

Condition	Requirement
✅ Existing Companies Only	Finance **only** for shares of existing infrastructure companies.
✅ Voluntary Disinvestment	Acquisition must be due to **voluntary disinvestment** of foreign/domestic promoters.
✅ Financial Health	Company should have **satisfactory net worth** & **no loan defaults**.
✅ Loan Cap	Bank finance **must not exceed 50%** of the total acquisition cost.
✅ Security	Loan should be secured **against company assets, not shares**.
✅ Loan Tenure	Maximum **7 years**, but banks can approve longer terms if needed.
✅ Regulatory Compliance	Adherence to **Banking Regulation Act, 1949**, and **SEBI guidelines**.
✅ Board Approval	Every loan proposal must be approved **by the bank's board**.

📌 **Example**: 🏗 If an **Indian infrastructure company (e.g., GMR Infra)** wants to acquire shares of an existing power project, banks can finance up to **50% of the acquisition cost**, provided the company meets the above conditions.

📌 Key Guidelines for Infrastructure Project Appraisal 🔍

Banks must conduct a **thorough risk assessment & financial appraisal** before funding an infrastructure project.

Appraisal Area	Key Considerations
📊 **Due Diligence**	Assess **financial viability** of government-led projects.
💰 **Revenue & Financing Assessment**	Clearly define **revenue sources & repayment schedules**.
🚨 **Risk Evaluation**	Identify risks like **cost overruns, delays, legal issues** & assess mitigation strategies.
🏗 **Special Purpose Vehicles (SPVs)**	Many projects use **SPVs** – banks must assess **their stability & creditworthiness**.
🔍 **Government Guarantees**	**State government guarantees do not replace proper credit appraisal**.
🏢 **Joint Financing & Syndication**	Large projects require **consortium financing with multiple banks**.
✅ **Monitoring & Supervision**	Set up **specialized committees** to **track project progress & financial health**.

📌 **Example**: 🚄 **Mumbai-Ahmedabad Bullet Train Project** requires multiple banks & financial institutions to **collaborate** for funding. Appraisal includes **cost estimation, feasibility study, and risk mitigation** before approval.

📌 Key Takeaways 💡

✔ **Infrastructure Financing = Special Guidelines for Risk Management**

✔ **Banks must follow RBI's structured appraisal & funding norms**

✔ **Government Guarantees ≠ Substitute for Due Diligence**

✔ **SPVs & Consortium Lending are Key in Large-Scale Projects**

📌 **Proper infrastructure financing ensures India's long-term growth while managing banking risks!** 🚀 🏗

📌 PRUDENTIAL REQUIREMENTS FOR INFRASTRUCTURE FINANCING 🏗💰

🔷 Prudential Credit Exposure Limits 🏢

To manage risks, RBI has set **prudential credit exposure limits** for **single & group borrowers** in infrastructure financing.

Type of Borrower	Exposure Limit
🏢 **Single Borrower**	☑ 15% of bank's capital funds. ☑ Additional 5% (total **20%**) if funding **infrastructure projects**.
👥 **Group Borrowers**	☑ **25%** of the bank's capital funds. ☑ Can be exceeded **in exceptional cases with board approval**.
🏢 **Exceptional Cases**	☑ Banks may **increase exposure by another 5%** with Board approval.
📢 **Disclosure**	☑ If limits are exceeded, banks must **disclose in the financial statements**.

📌 **Example**: A bank with **₹10,000 crore capital funds** can lend:

✔ **₹1,500 crore** to a **single borrower** (or ₹2,000 crore if it's for infrastructure).

✔ **₹2,500 crore** to a **borrower group** (higher with board approval).

◈ Risk Weights for Capital Adequacy ⚖

◈ Banks **must comply** with **Prudential Guidelines on Capital Adequacy** & assign **risk weights** as per Basel norms.

◈ Infrastructure loans have **higher risk weights**, increasing **capital requirements**.

◈ 3 Asset-Liability Management (ALM) ⚖📊

Infrastructure loans have **long repayment periods** (10-20 years), creating **liquidity mismatches**.

Banks **must ensure** they have enough long-term deposits to match loan tenures.

📌 **Example**: A **20-year road project loan** funded by **5-year deposits** creates a **mismatch**.

To manage, banks should:

✔ Raise **long-term bonds**.

✔ Use **Take-Out Financing (explained below)** 📜.

🔷 4 Administrative Arrangements 🏦🔍

Requirement	Objective
☑ **Timely Credit Availability**	Infrastructure projects **must not be delayed** due to funding issues.
☑ **Approval Process**	Banks must have **clear loan approval procedures**.
☑ **Monitoring Mechanism**	Banks should **track project progress** & ensure funds are used properly.

📌 **Example**: 👷 **Metro Rail Projects** require **timely funding** to avoid **cost overruns**.

Banks must monitor **disbursements & implementation timelines**.

🔶 TAKE-OUT FINANCING / LIQUIDITY SUPPORT 🔄🏢

📃 What is Take-Out Financing?

✔ **Solution for long-term loan mismatches** in infrastructure financing.

✔ **Banks initially fund** the project.

✔ **IDFC/SBI or other financial institutions "take out" (refinance) the loan** after a **fixed period (e.g., 5 years)**.

✔ **Benefits:** ☑ Reduces liquidity strain ☑ Frees up bank capital ☑ Helps long-term projects.

📌 **Example**: 🛣 A **highway project loan (₹5,000 crore, 15 years)** may be **transferred to IDFC after 5 years**, allowing the **bank to fund new projects**.

💰 Liquidity Support from IDFC/SBI 🚀

☑ **Alternative to Take-Out Financing**

☑ **IDFC commits at sanction** to refinance **all or part of the loan** after an agreed period (e.g., 5 years).

☑ **Bank keeps credit risk** but **gains liquidity support**.

📌 **Example**: 🏗 **SBI funds a ₹10,000 crore power project → IDFC refinances ₹6,000 crore after 5 years → SBI gets fresh liquidity** for new loans.

📌 **Key Takeaways** 🔍

✔ **Prudential exposure limits regulate single/group borrower risk.**

✔ **Banks must carefully manage asset-liability mismatches.**

✔ **Proper monitoring ensures funds are used correctly.**

✔ **Take-Out Financing & Liquidity Support help manage long-term loans.**

📌 **Efficient infrastructure financing fuels India's economic growth while keeping banks financially stable!** 🚀 🏦