BIAL: Setting the template

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The first public-private-partnership (PPP) greenfield airport financing in India has closed. The Rs14.12 billion ($325 million) Bangalore Airport deal features Rs7.36 billion in locally denominated debt, Rs3.26 billion of equity and an interest free subordinated loan from Karnataka state.

The private sector has a majority, 74% stake in the airport's project company, Bangalore International Airport Ltd (BIAL), which is charged with designing, constructing, operating, maintaining and financing the asset.

Siemens Project Ventures (40%), Unique (Flughafen Zürich) (17%) and Larsen & Toubro (17%) are the private-sector sponsors in BIAL. Karnataka state and the Airports Authority of India each have a 13% stake.

ICICI is arranger and currently the sole provider of the Rs7.36 billion 12-year commercial loan that funds 50% of the deal. However, indications are that the bank intends to syndicate part of the debt in the coming months.

A further commercial loan of approximately $20 million will also be provided, but the exact amount of the loan is contingent on the cost of the project. Stripping out the $80 million equivalent state loan, project gearing is conservative compared with a more typical project finance ratio of 70:30.

The financing is fully non-recourse. There are no completion guarantees during construction and no other written commitments from the sponsors, except those relating to their respective equity investments.

Given that the Rs3.5 billion loan from Karnataka is not provided in full on day one, sources close to the financing say ICICI wanted a state bank to guarantee the regional government's commitment. This was duly provided by the State Bank of India in the form of a letter of credit. But ICICI's demand for that guarantee highlights that even domestic commercial finance houses remain unwilling to take direct risk in certain regional governments in India.

According to Dr Wolfgang Bischoff, managing director at Siemens Project Ventures, the state loan was required partly because of the relatively small size of the new Bangalore airport: "The airport will have a capacity of 4.5 million passengers a year. Projected revenues would not therefore be sufficient to make the project economic on its own".

The repayment profile on the state loan depends on the airport's financial performance, adds Sandeep Katwala, head of the India practice at Linklaters in London: "Surplus cash in the company (calculated after taking account of a number of factors set out in the loan agreement) will be used to accelerate the repayment of the state loan. The loan is otherwise, repayable in 30 years, in 20 equal installments commencing only in the eleventh year after financial close".

When the sponsors first began to consider a funding strategy for the airport, a combination of both onshore and offshore debt was considered. But there was little between the two in terms of pricing, and given the volume of debt required, the liquidity in the Indian bank market, and the efficiency of a pure domestic deal, the sponsors elected to go for a 100% local financing.

Remaining patient was a key challenge for the private sponsors during the project negotiations, suggests Bischoff. The private sector shareholders won the airport concession in October 2001, but found progress was delayed by a range of factors including negotiations between the local government and central government over their respective rights and responsibilities in the project.

"The concession agreement took three years to negotiate. One of the factors for the delay was that the Central Government was initially reluctant to grant a concession, whilst the State Government did not have the legal authority to grant the concession," says Katwala. Katwala adds that the law firms involved in the project decided that the Airports Authority Act, which paved the way for the Bangalore development, other privately owned airports, and the Mumbai and Delhi privatisations, did not sufficiently empower the private sector to run an airport. The law firms therefore had to push for amendments to the Act before the project could be advanced. This process further delayed the project.

The Bangalore project model is now being adopted for the development of the Bombay and Delhi airports and other airports schemes in India. "It makes sense for the authorities to adopt a similar approach to the other airports projects, rather than trying to develop different structures for each individual venture," says Bischoff.

However, participants in the Bangalore project would not disclose details of the model, including the level of royalty fees to government and details of termination clauses, prior to the close of bidding for the Bombay and Delhi schemes.

Bischoff says that the project represents the first direct investment by Siemens Project Ventures in an airport anywhere: "We decided not to pursue another Indian airports project until the Bangalore deal reached financial close, which meant we could not pursue the Mumbai or Delhi privatisation bids".
The construction of the airport began in July and will be completed in 30 months. The airport is expected to open for commercial operations by April 2008.

According to Bischoff, the sponsors have initially forecast that 80% of the airports revenues will come from passenger and cargo aeronautical fees, with 20% of revenues coming from non-aeronautical services such as car parking and shopping. But the "revenues estimates are conservative, and considering the rapid development of the Indian aviation market, these revenue expectations are likely to continue moving up," adds Bischof.

Bangalore International Airport
Status: Financial close
Size: Rs14.12 billion
Debt: Rs7.36 billion (commercial loan), Rs3.50 billion (state loan)
Description: Project financing for the first PPP greenfield airport project in India
Sponsors: Siemens Project Ventures, Unique (Flughafen Zürich), Larsen & Toubro, Karnataka state, Airports Authority of India
Lead arranger: ICICI Bank
Legal counsel to private sponsors: Linklaters (international), Crawford Bayley (India)
Legal counsel to state sponsors: Jyoti Sagar & Associates
Legal counsel to the Government of India: Amarchand Mangaldas
Legal counsel to the lender: AZB & Partners