

Karur-Dindigul highway Project

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The development of India's highways forms a vital part of India's 10th five-year transport plan to upgrade roads, railways, airports and ports

National highways constitute less than 2 per cent of the road network but carry more than 40 per cent of total traffic and nearly 38 percent of the NH network is single lane while 59 per cent is double lane.

In response to the deficit the National Highway Development Programme (NHDP) phases I and II were launched in 1999, covering a length of nearly 14,000km at an estimated cost of US\$12.3 billion.

The Karur-Dindigul highway project forms the latest project in the NHDP scheme and has been financed under a US\$83.5 million (INR 373.32 crore) PPP model

The road is being built under a concession agreement between the National Highways Authority of India (NHAI) and a JV of Madhucon Projects (MPL) and SREI infrastructure Limited for a highway road project between Karur and Dindigul in Tamil Nadu on the NH-7

The BOT highway project involves the design, construction, operation and maintenance of the 70km stretch with a concession period of 20 years.

The project is one of four that has been awarded for the BOT NH-7 projects for 330km worth around US\$403 million - three in Tamil Nadu and one in Rajasthan.

Background

In 2003, the NHAI issued an open tender for the four lane NH-7 highway project intending to shortlist at least two bidders.

One bid was received from MPL in December 2005 and with only a single bid, NHAI selected the company as PB in February 2006.

The contract reached financial close on 16 October 2006, with NHAI commenting that MPL was the only company to have bid because they had a previous track record, having completed 360km of National highway in the Golden Quadrilateral sector.

In Tamil Nadu, a separate National highways wing was created in 1971 and at present is responsible for 3850 km with large sections of highway sanctioned for improvements using PPP models.

The Project

The NHAI has stated that the improvements are necessary because of the acceleration of industrialisation in the country. The government of India is keen to provide hindrance-free traffic movement by widening roads, grade separators, construction of bypasses, bridges and rail-road crossings.

MPL is at present engaged in 3 other BOT toll based highway projects under a PPP model with all the projects having been sanctioned from NHAI, these include:

- Bharatpur-Mahua project (Rajasthan): The length of the project is 57 km and the total project cost is US\$66.6 million (INR298)
- Trichy-Thanjavar project(Tamil Nadu): The length of the project is 57 km and the total project cost is US\$87.2 million (INR390)
- Madurai-Tuticorin project (Tamil Nadu): The length of the project is 129 km and the total cost is US\$206 million (INR 920)

The Bharatpur-Mahua and Trichy-Thanjavar project both reached financial close earlier this year in June with the Madurai-Tuticorin project expecting financial close by the end of the year.

Financing

The project cost is US\$83.5 million with a 20 year concession period including a government grant of US\$19.2 million(INR86 crore).

Sponsors of the project are MPL, SREI Infrastructure Limited and NHAI. Hemant Kanoria, vice-chairman and MD for SREI said: 'With our various debt/equity/quasi-equity instruments, we are now able to take larger stake in the projects directly.

'Moving forward, we would increase our full services to the infrastructure projects resulting in higher yield in our investments, besides the fee - based income that we would generate on advisory.'

The State Bank of India acted as lead arranger for the project and the government grant was to the extent of 20 per cent of the project cost.

The total equity is US\$33.5 million (INR149.32 crore) and the total senior debt is US\$50.2 million (INR 224 crore).

The debt:equity ratio is 60:40 and the funding is covered by a government guarantee.

Conclusion

As of November 2005, 5885km of highways had been four-laned and another 3290 km under implementation.

Phase III was launched in 2005 for upgrading and four-laning 10,000km of high-density corridors and state capital connectivity of national highways at an estimated US\$12.5 billion to be developed under a PPP scheme.

The government has yet to unveil plans for Phase IV and V but costs are estimated to be higher than Phase III.

MPL has established itself as a specialist in the infrastructure development projects focusing on national highways and toll based roads and SREI has strategically positioned itself in the Indian infrastructure development sector, capitalising on the huge business potential.

The project at a glance

Project Name	Karur-Dindigul Highway Project
Location	Tamil Nadu-India
Description	DBFO of 70km of road between Karur and Dindigul using a PPP model
Sponsors	Madhucon Projects Limited, SREI Infrastructure Finance Limited and National Highway Authority of India
Operator	Madhucon Projects
Project Duration (Including construction)	20 years
Construction Stage	3 years
Total Project Value	US\$83.5 million (INR 373.32 crore)
Total equity	US\$33.5 million (INR 149.32 crore)
Equity Breakdown-Government Grant	20 per cent
Total senior debt	US\$50.2 million (INR 224 crore)
Debt:equity ratio	60:40
Mandated lead arrangers	State bank of India (SBI)
Legal Adviser to sponsor	India Law Services, Mumbai
Financial Adviser to sponsor	SBI Capital Markets, Mumbai
Date of financial close	16 October 2006

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