

# São Paulo Beltway - Rodoanel Oeste

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The Rodoanel Oeste ring road concession in São Paulo was one of the key transactions of 2009 that despite adverse market conditions, remains a leading example for the development of PPPs in the region.

The US\$1.47 billion deal stands out as the largest long-term financing transportation transaction in Latin America; the first project finance toll road for JBIC; and also for the use of a subordinated tranche with an automatic debt replacement mechanism.

Traffic risk was never going to be much of an issue for the Rodoanel Oeste deal, with the existing São Paulo road network struggling to cope with an ever increasing traffic volume.

As such, the deal stands as the most important transport infrastructure project in the largest metropolitan area in South America.

## Background

The scheme [\[Projects Database\]](#) was originally conceived as an essential road both to alleviate traffic in the city of São Paulo and to facilitate the communication between Brazil's industrial heartland and its major port - the Port of Santos.

Construction work on Rodoanel Oeste was concluded in 2002 and the São Paulo state government decided in 2007 to concession its operation to the private sector as a way to raise financing for the completion of the next section of the ring, Rodoanel Sul.

The Rodoanel Oeste contract consists of the expansion, rehabilitation, operation and maintenance of a 32km brownfield tolled west ring-road section around the city.

The contract was awarded in March 2008 to:

- Companhia de Concessões Rodoviárias (CCR) - 95 per cent
- Encalso Construções - 5 per cent

On 1 June 2008 CCR and Encalso Construcoes signed a 30-year concession for the West Section of Rodoanel.

As the largest road operator in Brazil, CCR considered the project to be strategic for its expansion strategy - allowing the connection of several of the company's roads that feed into São Paulo.

Mayer Brown and TozziniFreire Advogados acted as legal advisers to the sponsor, while PwC provided financial advice.

Clifford Chance and Machado Meyer Sendacz e Opice Advogados acted as legal advisers to the lenders.

The south section is expected to start operations in March 2010, with the east section in 2013 and the north section thereafter.

## Financing

The project is being financed with US\$530 million in equity and US\$940 million in total debt financing - resulting in a debt to equity ratio of 65:35, with a debt service coverage ratio of 1.5.

The contract includes a US\$1.25 billion concession fee payable to the government of the state of São Paulo, and US\$200 million in additional capital expenditures.

The sponsors initially started working closely with the Inter-American Development Bank (IDB) to structure the financing of the project.

The financing plan initially included a 7-year mini-perm structure, although this was replaced with long-term financing following a decision to seek alternative sources of financing in order to minimise the dependence on international commercial financial institutions.

Several issues had to be addressed in order to successfully implement the long-term financing and therefore, financing solutions had to come from a variety of sources.

Some of these issues included:

- raising a large sum of debt under such adverse market conditions
- mitigating the traffic risk to be originated from Rodoanel Sul's eventual start of commercial operations
- introducing enough flexibility in the financial structure to attract financial institutions to provide long-term funding - 13 to 15 years tenor
- capture potential upside for the sponsors once economic activity and financial markets improve

IDB had the initiative of bringing JBIC (Japanese Bank for International Cooperation) as a partner for deals in Latin America. JBIC's participation was crucial to strengthening the transaction, attracting other lenders and securing long-term financing.

The deal is the first IDB-JBIC co-financing facility under such partnership that was formalised by the signing of a MOU on 31 March 2009.

JBIC joined the transaction with US\$200 million and a 15 year tenor.

It was important to find other financial partners that could not only provide long-term financing but also be willing to work for the duration with IDB, JBIC and the sponsors.

The Portuguese CGD Group (through CaixaBI and the group's subsidiary in Brazil, Banco Caixa Geral Brasil) was the first commercial institution selected to participate in the long-term financial structure.

Calyon and Banco Espirito Santo (BES) - of which Calyon is a 20 per cent shareholder - later joined the CGD Group to complete the IDB B1 loan.

The banks initially committed to US\$200 million each.

It was also important that the financial structure incorporated the flexibility to be adjusted as traffic risk was reduced.

The financing included an automatic debt replacement feature. The project's capital structure incorporates a BRL750 million subordinated unsecured debt financing (sub debt totalling US\$44m) provided by Banco Bradesco.

This Real denominated debt is secured by a sponsor corporate guarantee, and ranks junior in terms of payment and security rights in relation to the senior lenders financing.

The purpose of the sub debt tranche is to allow a rebalance of the capital structure overtime.

Apart from having local lender Bradesco providing the sub-debt, for the senior loan there were no local banks. The long-term market in Brazil is still missing, with local banks unable to provide 13 or 15-year financing as the project required.

After traffic risk is substantially reduced following the start of Rodoanel Sul operations, the project will be allowed to replace its sub debt with additional senior debt (either an IDB B2 tranche or any other form of debt denominated in Real or Dollar), capped at the existing sub debt amount.

IDB has approved an IDB B2 tranche of US\$395 million, which can be used by the borrower for this matter. The IDB B2 lenders will be selected at the time of the automatic debt replacement.

- IADB A Loan - US\$100 million - 15 years - Inter-American Development Bank (IDB) - priced at Libor +375bp
- IDB B1 Loan - US\$200 million - 13 years - Banco Caixa Geral, Calyon and Banco Espirito Santo (US\$66.67m each) - priced at Libor +350bp
- IDB B2 Loan - US\$395 million - IDB B1 Loan
- JBIC (Japan Bank for International Cooperation) - US\$200 million - 15 years - priced at Libor +375bp
- CCR Guaranteed Debt (subordinated debt) - US\$440 million - 3 years (renewable) - Banco Bradesco - priced at 117.5 per cent of CDI
- Equity - US\$530 million

Due to tax reasons the team had to reach financial close by the end of December 2009 - if they overran, it could have cost an additional US\$20 million.

The project reached financial close on 3 December 2009.

## Conclusion

The Rodoanel Oeste project is the first highway development to be launched as part of the GOSP's (Grande Oriente de São Paulo) second generation of state toll road concessions and the first section of the Sao Paulo metropolitan beltway project.

It will also be remembered as one of the largest infrastructure project financing deals in Latin America in 2009 - a difficult year for many projects trying to secure long-term financing.

Despite the effects of the global recession, Brazil is determined to press ahead with major infrastructure projects as the host of the 2014 World Cup and the 2016 Summer Olympics.

Over the next five years Brazil is expected to spend as much as US\$500 billion in areas as diverse as transportation, sports venues, power plants, water treatment facilities, and offshore oil projects.

While a good amount of commercial bank debt was secured on the Rodoanel Oeste deal, new sources of funding will now be tapped - including the likes of mutual funds, pension funds and the capital markets - to complete project finance transactions in the region.

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