



# PPP Projects in State Highways

Investor Perspective \*

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\*connectedthinking

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# In this Presentation



- Who all are the stakeholders?
- What do investors look for in PPPs?
- Issues/Perceptions of Investors.
- What should states do to attract investors?

# Stakeholders & Supporting system



## The key stakeholders:

- State Government
- Investors, other finance providers
- Construction & maintenance providers
- Users

## The key supporting systems:

- Policy & Regulatory environment
- Contractual framework

The investors looks for low risk and high return

# What do investors look for in PPPs



## Project specific considerations

- Unmet Demand
- Revenue generating capability
- Revenue development potential
- Demonstrated Project viability
- Demonstrated political commitment to the project by local government
- Risk transfer: Proposals that balance risks and rewards between public and private partners

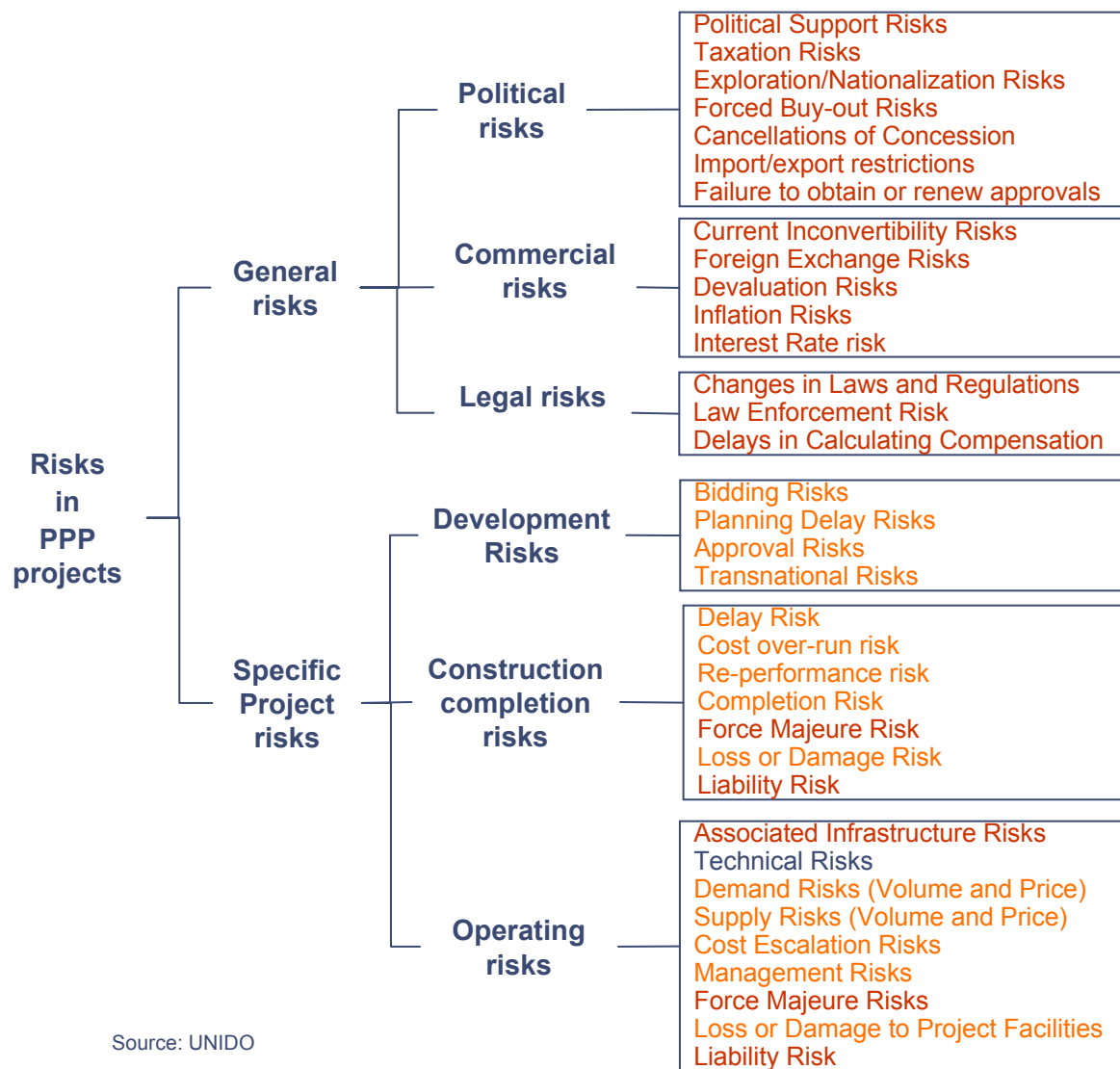
# Return Expectations



## Return expectations

- Vary with risk perceptions
- Risk perception of Investors increases as they venture out of familiar markets
- Risk perception increases exponentially in case of emerging markets because of greater uncertainty
  - Early investments in power and telecom had hurdle rates of 25% dollar returns
  - Current investments by local investors have return expectations in the range of 16% - 20% in rupee terms

# Risk perception of Investors



Source: UNIDO

Risks that assume greater significance for foreign investors compared to local investors

## **General**

- Political risks
- Country commercial risks
- Country legal risks

## **Specific**

- Development risk
- Force Majeure risk
- Liability risk

# Current situation in state highways PPP



## Who are Investing?

- Mainly small local/regional construction companies
- Few national players, mainly in large projects.

## Who are not Investing?

- International players
- Large Indian developers who have otherwise a strong presence in infrastructure sector.

# Issues/Perceptions of Investors



1. Low Project Attractiveness:
  - Small size
  - Low traffic
  - Competing NH projects
2. Political uncertainties
3. Legal & Regulatory framework Issues:
  - Inadequate policy frameworks for PPPs
  - Legislative authority
  - Autonomy & authority of concessioning agency
  - Regulation of traffic

# Issues/Perceptions of Investors (Contd...)



4. Financial capacity of state:
  - Finances of the state
  - Road funds?
5. Inappropriate risk allocation:
  - Land acquisition
  - Environmental clearances
  - Toll rate notification
  - Utility relocation
  - Competing roads
6. Project development capacity issues
  - Poor quality of project preparation
  - Land procurement issues

# Issues/Perceptions of Investors (Contd...)



7. Financial market:
  - Non-availability of long-term fixed rate debt
  - Bond markets not developed
  - High interest rates at present
  - Rupee denomination (Foreign investors)
8. Low appetite of lenders for state projects
9. Regional/States preferences

# What can states do to attract investments



1. Develop and publicize a program,
  - Not one off projects
  - Target investor profile
2. Clarify & develop
  - Legal, Regulatory framework
  - Institutional framework & arrangements
  - Contractual framework (balanced risk sharing)
3. Invest in capacity building of state level personnel
4. Rigorous evaluation
  - Value-for-money
  - Attractiveness to investors
5. Invest in project preparation
  - Good quality DPRs
  - Attractive project structuring/configuration
  - Early land acquisition etc.

