PART 1 – Structured Project Finance Considerations
PART 2 – Bank Loan Syndication in Structured Project Finance

PART 1
Structured Project Finance Considerations

A Project Finance transaction involves the mobilization of debt, equity, contingent equity, hedges and a variety of limited guarantees possibly through a newly organized company, partnership or contractual joint venture for the purpose of building a capital intensive facility and operating your discrete business activity. There are two main forms of corporate lending full faith and credit of corporate balance sheet and the project finance loan:

RECOURSE LOAN

In a recourse loan scenario the lender can claim more than the collateral, subject to some restrictions, as repayment in the event that the loan is enforced. Thus a full recourse loan places the Sponsor's assets at risk.

NON-RECOURSE LOAN

In a non-recourse loan scenario the lender cannot claim more than the collateral as repayment in the event that the loan is enforced.

PROJECT FINANCING PARAMETERS

Loan Limit:	Determining maximum borrowing capacity of the project
Currency:	May be denominated in either local or foreign currency.
Capital Structure:	Maximum debt-to-equity ratio up to 80:20
Loan Tenure:	Maximum tenure of the loan depends on project nature. Tenure will typically include a grace period, which commemorates with length of construction period and timing of revenue generation by the project
Facility Nature:	Both funded and non-funded (L/C, BG, etc.). Funded facilities may include revolving credit for working capital facility
Rate of Interest:	As applicable
Fees & charges:	As applicable
Securities:	Primary (first charge on project assets), and collateral (PG, corporate guarantee, R/M on other immovable properties, lien on financial assets, FDR, shares, etc.)

PROJECT FINANCING MECHANISMS

Project financing can be done by:

- A single bank, a financial lender, funder or Investor
- Through loan syndication (arranging loan from a number of banks/financial institutions)
- Through collateral monetization

In all cases, credit appraisal remains identical with focus being the same: determining cash flow generating capacity of the project. However, syndication is generally preferred when loan size is large and the borrower has strong operational and financial track record so that it is possible to raise funds from the market.

What is Project Appraisal?
Project finance requires project appraisal. Project appraisal is the due diligence conducted on sponsors, technical, market, environmental, financial, legal, and risk aspects, among others, of the proposed project. It is the assessment of the viability of proposed long-term investments in terms of shareholder wealth. From a financier's perspective, the focus is on whether the project can generate sufficient cash flow to repay its debt and provide an acceptable rate of return to sponsors.

Why is Project Appraisal needed?
To stop bad projects
To prevent good projects from being destroyed
To determine if components of projects are consistent
To assess the sources and magnitudes of risks
To determine how to reduce risks and efficiently share risks

COMPONENTS OF PROJECT APPRAISAL

1. Sponsors Analysis
2. Technical Analysis
3. Market Analysis
4. Environmental Analysis:
5. Financial Analysis
6. Legal Analysis
7. Risk Analysis

Sponsors & Management Review should answer the following:

- Sponsors track record in implementing similar kind of projects
- Sponsors financial strength to fulfil base equity and contingent equity commitment

Management review should answer the following:

- What are managerial and labour needs of the project?
- Does organization have the ability to get the managerial skills needed?
- Is timing of project consistent with quantity and quality of management?
- What are wage rates for labour skills required?

Technical Analysis

- Review of Technical Expert/Independent Engineer’s Report
- Track record of proposed technology
- Adequacy and completeness of the project design
- Quantities of inputs by type needed for investment and operation
- Labour required by type and time
- Input prices and sources of supply
- Environmental impacts

Market Analysis

- Review of Market Expert’s Report
- Whether there exists a strong market for the project
- Demand – supply gap
- Price elasticity
- Availability of substitutes
- Sector/Industry Analysis should also be done here
- Industry competitiveness / structure / tariff / duty / tax / vat, etc.
- Availability of inputs / raw materials
- Major industry players
- State of regulations

Environmental Analysis

- What are the likely environmental impacts from undertaking project ?
- What is the cost of reducing the negative impact?
- Evaluation of the environmental impacts and risks with and without technical measures are taken to reduce these impacts
- Are there alternative ways of supplying the good or service of project without incurring these environmental costs? What are the costs of these alternatives?
- Is it a RED / ORANGE / GREEN project?
- Have relevant environmental permissions been obtained?

Financial Analysis

- Determination of total project cost and sources of finance
- How to forecast project earnings and costs?
- How to model project profitability under uncertainty?
- What are the DCF tools used in project analysis?
- Key questions asked in financial analysis:
- What is relative certainty of financial variables?
- What are sources and costs of financing?
- What are minimum cash flow requirements for each of the stakeholders?
- What can be adjusted to satisfy each of the stakeholders?

Typical Structure of Financial Analysis

- Capital cost and financing plan
- Capital cost
- Working capital requirement
- Engineering, procurement, and construction
- Allocation of loan and equity and disbursement
- Operating costs and earnings projections
- Revenues
- Operating costs
- Pro forma financial statements (IS, BS, SCF)
- Financial projection
- Net present value (NPV) & internal rate of return (IRR)
- Sensitivity Analysis

Legal Analysis

- Is project operation lawful?
- Review and check certificate of incorporation, etc.
- Does the project have all relevant permission in place?
- If anything related to export / foreign investment, check for respective investment approvals.
- If anything related to tax, duty, VAT, etc. consult Board of Revenue.
- If anything related to capital raising, consult Securities Exchange Commission.

Risk Analysis
Fundamental Principle of Risk allocation: Risk should be allocated by contract or otherwise, to the party best able to mitigate or control risk.

- Major Risks Involved in Project Finance:
- Construction Risk
- Credit Risk
- Marketing and Operating Risk
- Financial Risk
- Political Risk
- Legal Risk
- Environmental and Social Risk
- Force Majeure Risk

THE STRUCTURED PROJECT FINANCE PROCESS
Administered full time by a Senior Professional

In one if the most favoured structured project finance models a Family Office can be the lead investor to start project finance through syndication. In such a funding process, the Family Office is the first investor to attract additional financial sources to join the syndicate. The Family Office works with specialized service providers to allocate and attract Commercial Banks, Investment Banks, Investors or Senior Lenders, to become funding partner in the project finance syndicate and lenders of project funding collateral and identify specialized monetizers if this the preferred funding strategy.

This structured funding service is available only if a client or sponsor qualifies for funding and the service is performed on mutually agreed terms as outlined usually in a Memorandum of Understanding. To cover the costs to allocate funding for a specific project, this service usually requires a financial commitment to be provided by the client or sponsor to enable to perform a professional structured funds allocation process. The Memorandum of Understanding will detail the services that will be performed by a Senior Professional exclusively employed by the facilitator to promote the client's or sponsor's project and introduce it to potential funding models, funding sources, lenders of additional collateral security or monetizers for available project collateral.

Once the Memorandum of Understanding has been agreed and executed by both parties, and to start the process of funding, a Senior Elite Professional will be appointed by the service provider to manage and structure the project finance process for the client or sponsor. The Senior Professional will work in conjunction with client or sponsor and uses its reasonable efforts to facilitate the completion of a transaction that will achieve the client's or sponsor's project funding requirements. The services to be performed will include, but are not limited to:

- Advise and assist client or sponsor in determining details of any capital raising initiative.
- Assist in preparing a confidential descriptive memorandum of Client or Sponsor, and its operations and finances, for use in discussions with Potential Targets.
- Identify, screen and prepare Potential Targets, for the purpose of establishing which Potential Targets will be approached and in what order.
- Contact, establish and attend exploratory meetings with Potential Targets.
- Develop judgments as to the relative values and financial implications to client or sponsor and any proposed Transaction and then, in consultation with client or sponsor and legal, accounting and/or tax advisers, advise client or sponsor on appropriate negotiating strategies and, to the extent deemed appropriate, assist and/or direct negotiations leading to a conclusion of the proposed Transaction.

Senior Professional usually will also manage all communication services, including mail until the project is funded.