



Meghraj Capital Advisors Private Limited

Infrastructure Consulting | Mergers & Acquisitions | Private Equity | Capital Markets

Role of Credit Risk Guarantee Facility in Result Based Incentive model for Distributed Generation Projects

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Meghraj Group



Founded by late Mr. Meghji Pethraj Shah. Early 1970s headquartered in the British Isles



Meghraj Group is an international investment banking, fiduciary services and infrastructure (Urban & Power) and real estate consulting organisation.



Power Consulting- Generation, Distribution, Regulatory, RE, Energy Efficiency



Offices

RE Experience

Off-Grid



- Credit Risk Guarantee Facility
- Result Based Incentive
- Mini-Grid Regulations in UP
- Action Plan for Mini-Grid Projects in UP

Rooftop Solar (RTS)

- Net metering based RTS scheme in 3 states
- Policy Coalition
- RTS policy in West Bengal
- City-wide 5 MW RTS Program in Rajasthan
- Sustainable energy development plan in Maldives

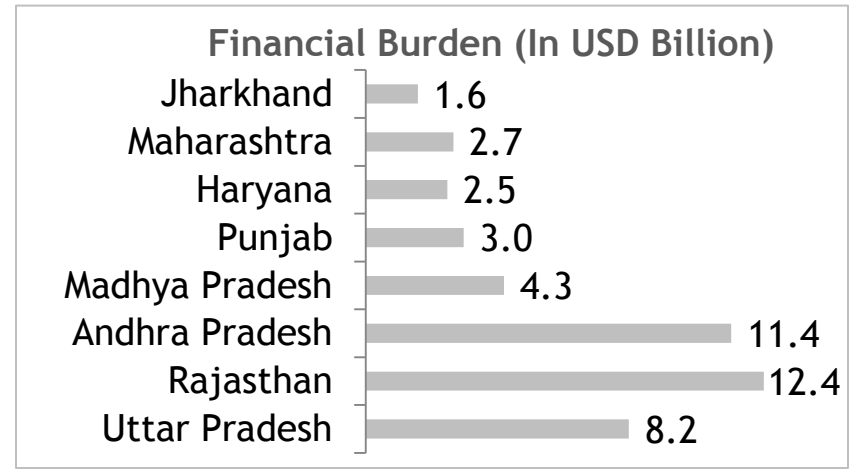
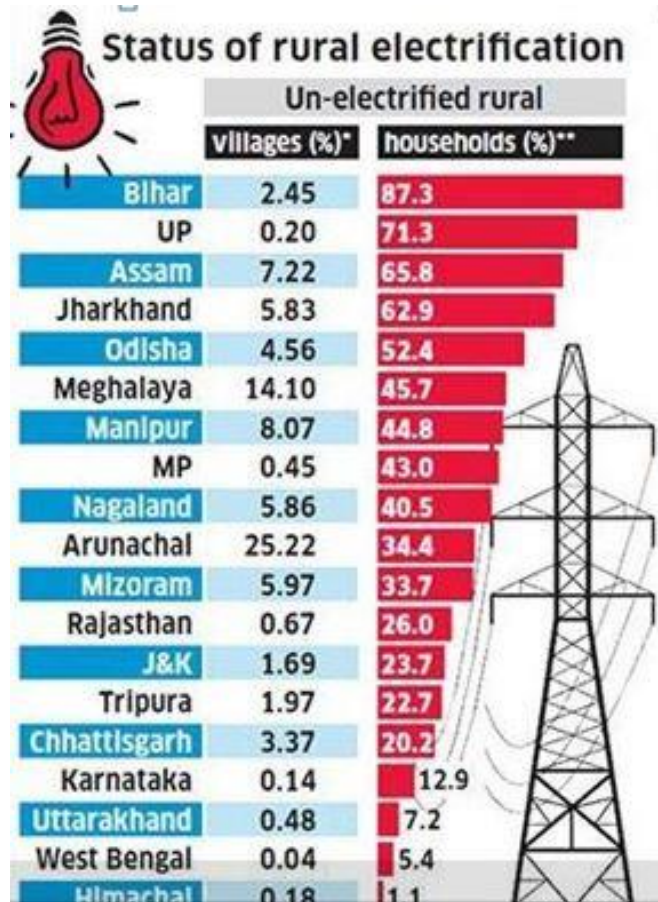
Solar Park

- Badhla Solar Park, Rajasthan
- Rewa Solar Park, Operating manual
- Solar Park Development & Transmission Sector Project



Substantial electrification at village level; high % un-electrified Households

237 million people in India without having access to electricity (IEA, World Energy Outlook 2015)



Discom's Disinterest: Perceived financial burden, price disparity (ACoS vs Tariff - cent 9.93 Vs 7.93)

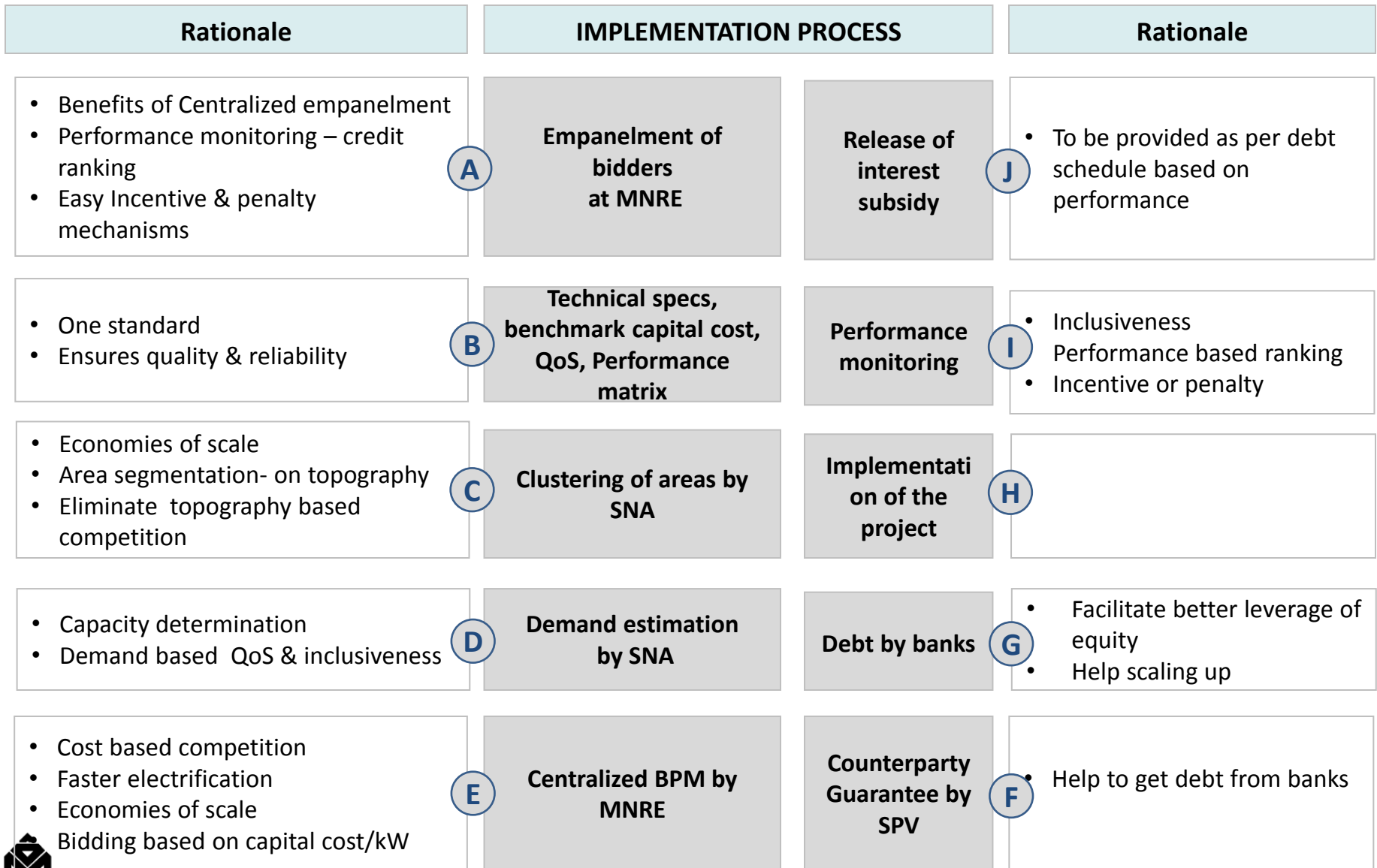


Issues: Sustainability, Financing, Grid Arrival

Government's initiatives 24X7 electricity access to all



Model Scheme Implementation Process Flow



Performance Metrics designed to provide incentive for good performance for current project and incentive for scale up



Projects assessment parameters

Generation/minimum expected generation

Households electrified/min. households to be electrified based on capacity

Inclusiveness (I)* etc.



Interest subsidy disbursement contingent on meeting Performance Metrics



Maximum project capacity to be bid by Project Developer is dependent upon rating



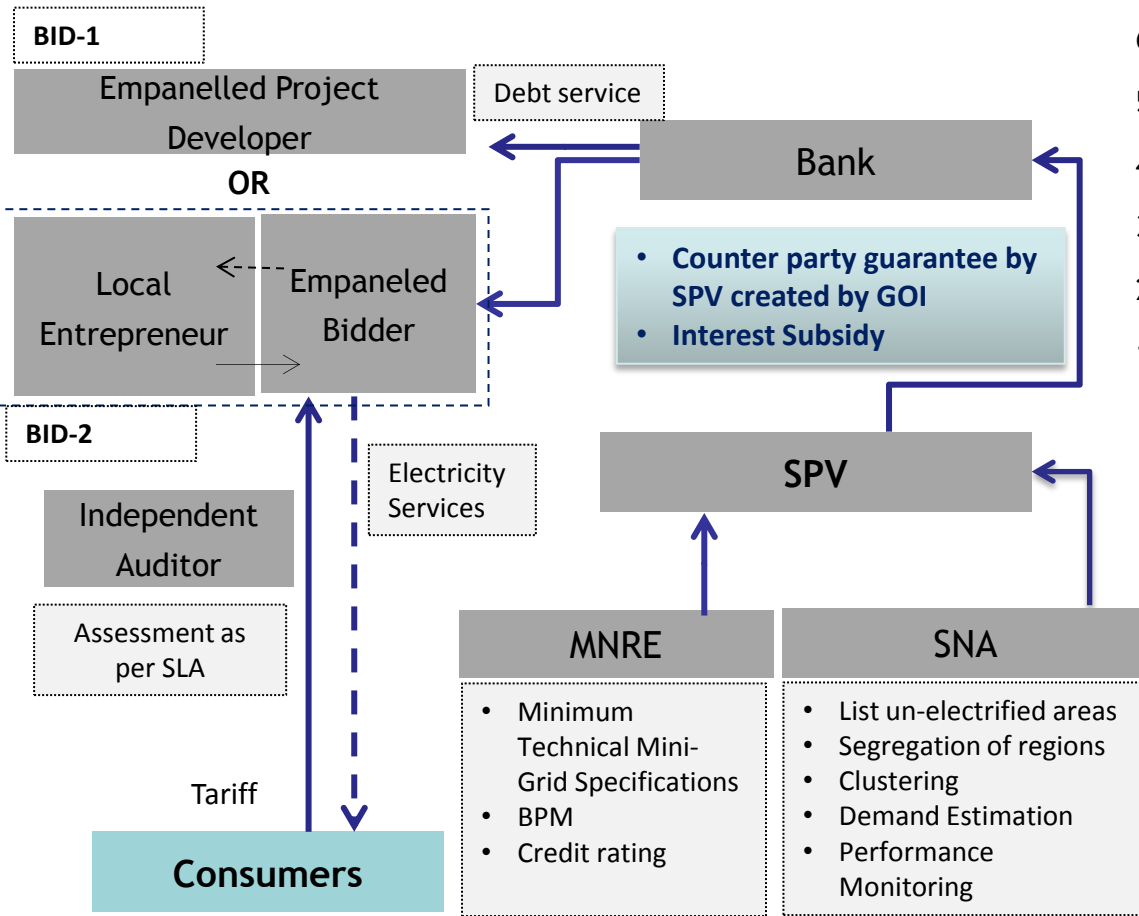
Provision under Bid Process-2, non-performance of local entrepreneurs associated with empanelled bidders, may affect rating of empanelled bidder

to ensure empanelled bidders provide good quality & undertake basic due-diligence of projects themselves

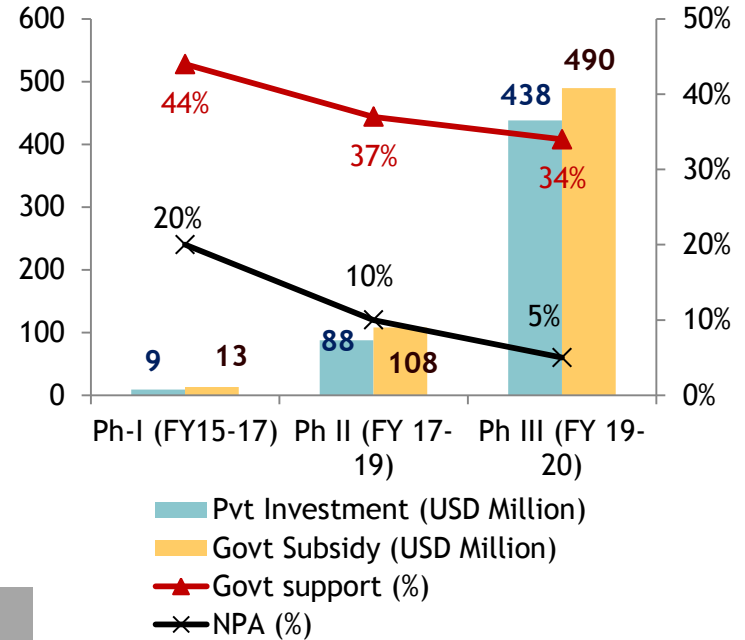
**($I < 0.8$ for 1st year of operation and $I < 0.7$ for subsequent years of operation; $I = [N+1/N-1] - (2/(N(N-1)\mu) \times (\sum P_i U_i (i=1, n)))$ (where N is the number of households in the village as per census 2011, μ is the mean electricity consumption, P_i is the rank of the consumer with consumption U_i)*



Schematic diagram of the model



Illustration



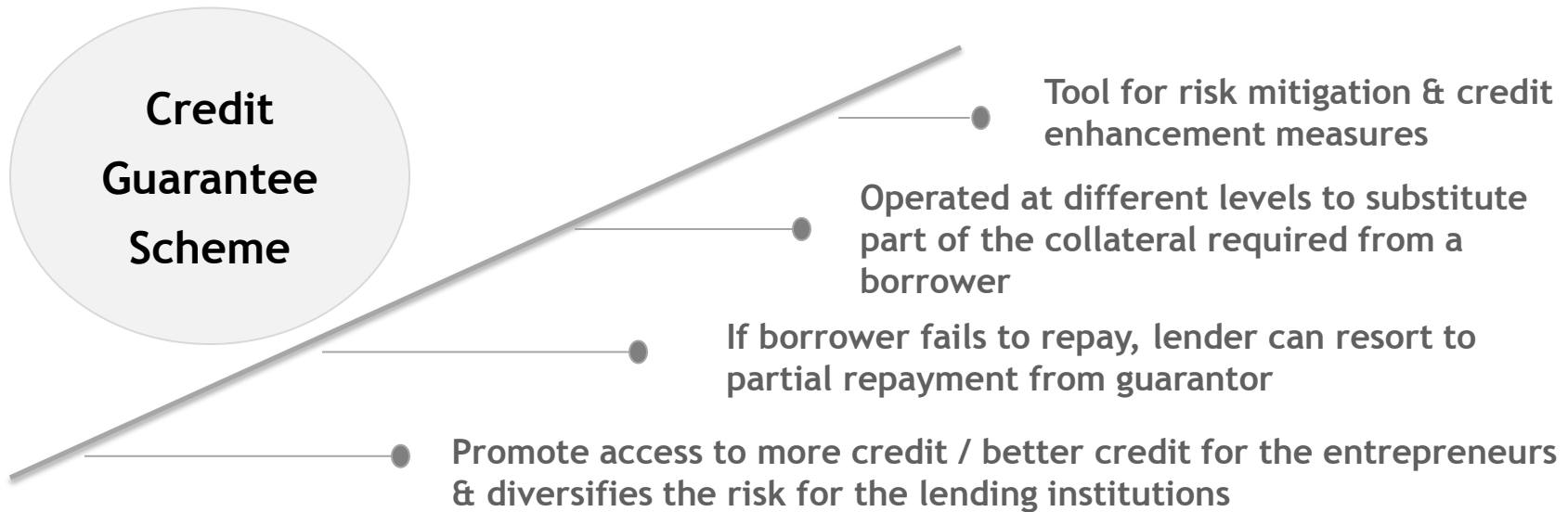
➤ The decrease in NPAs shall be due to higher capacity allocation to the entities that have performed as per the performance metrics

Additional Funding/Credit Guarantee to the Technology Provider either directly or under Build Maintain model contingent on

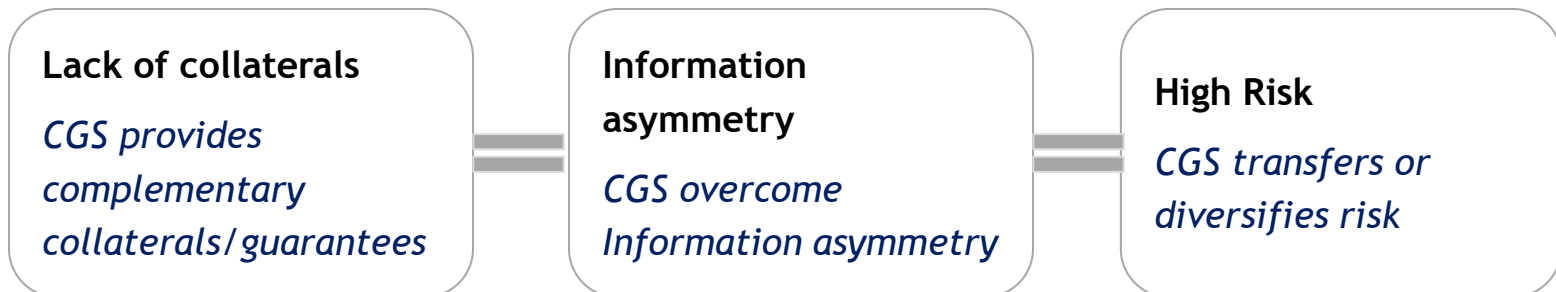
- Meeting SLA
- Debt Repayment



Relevance of a Credit Guarantee Schemes (CGS)



- Difference exist between Viable Projects & Bankable Projects
- Projects can be viable in long-run, but not definitely bankable on account of



Operational Parameters

Objective Formulation

- Need
- Target
- Scope

Credit Guarantee Fund Models

- Funded Vs Non-funded
- Retail Vs Portfolio
- Direct or Indirect

Eligibility

- Beneficiary
- Eligibility Criteria

Risk Sharing

- Delivery Mechanism
- Size of the guarantee
- Coverage of interest

Creation of fund

- Type of Fund
- Size of Fund
- Sources of Fund
- Leverage

Operating Procedures & Processes

- Application
- Appraisal
- Issuance
- Loan follow-up
- Claims
- Claims Validation
- Claims Payment
- Recovery of Losses

Managing Partners

- Core Partners
- Participating FI
- Capacity Building
- Performance Monitoring
- Marketing of Fund

Organization Setup

- Institutional Arrangement
- Structure
- Governance
- Capacity Building
- Staffing

Fees & Charges

- Relates Expenses
- Methods
- Fees
- Incentives

Accounting & Reporting

- Financial Statements
- Provisioning for Guarantee
- MIS

Performance Monitoring

- Performance Monitoring
- Performance Rewards
- Medium term additionality created



Eligibility and Risk Coverage

Eligibility Conditions

- Min. 20 kW & Max 1 MW for systems other than stand-alone systems
- Self-use & third party (including leasing arrangement)
- All technologies
- Grid connected systems eligible after 31st March 2019

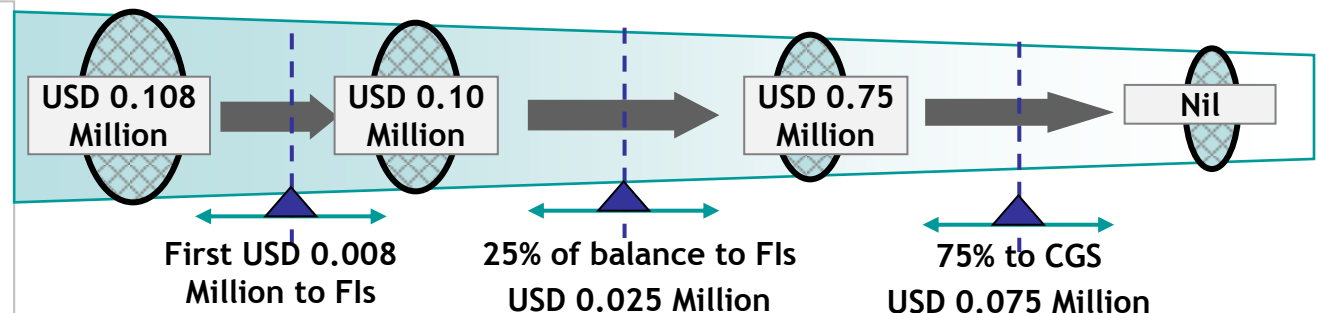
Risk Coverage

- **Coverage Ratio-** Till 2019, 75% to lending institution. Post 2019, technology & project specific ratio
- **Default amount-** Outstanding principal & interest
- **Total amount-** As on date of account becoming NPA or on which lending institution has lodged the claim, whichever earlier
- Provision of partial third party guarantee or personal guarantee

Risk Allocation

- Any loss be borne by CGS & lending institution in ratio of 75:25 till the bank exhausts their risk coverage of 25

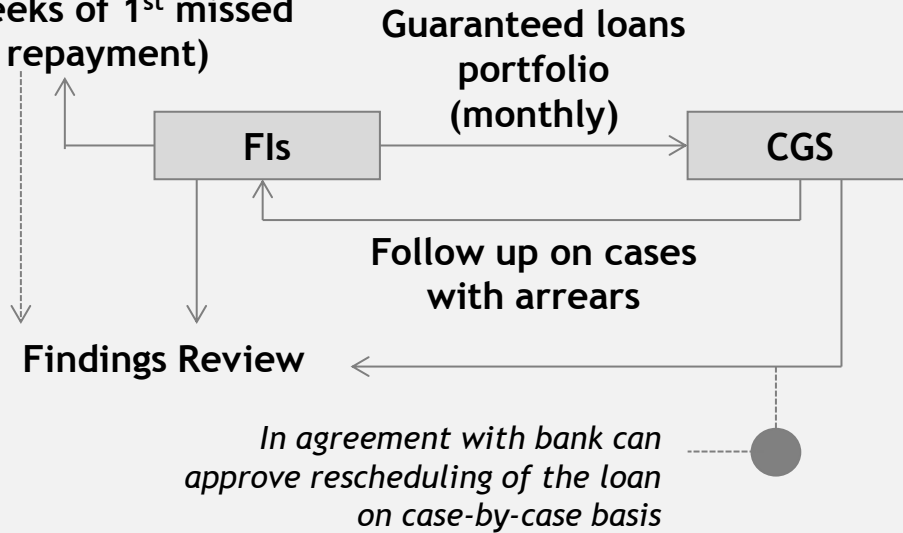
Illustration- Default USD 0.108 Million



Other Aspects

Reporting & Follow up

Loan follow-up (within 2 weeks of 1st missed repayment)



Default Claims

FI responsible to-

- Intimate fund, once amount due for 90 days
- Initiate legal proceedings
- File claim when amount becomes NPA as per RBI guidelines
- Pay claim processing fees of USD 76.92 along with their claim for guarantee

Loss Recovery

Bank responsible for-

- Liquidating collateral & pursue for recovery
- Proceeds from sale of collateral & any additional amount recovered from defaulter, shared in the ratio of coverage ratio (after adjusting expenses of FIs)

Credit Rating linked Fee

Upper Band
90 % of Standard
Fees

Middle Band
95 % of Guarantee
Fees

Lower Band
100 % of
Guarantee Fees

Unrated or others- 100 % of Guarantee Fees



Performance Evaluation

Fls & Beneficiaries Evaluation

- Evaluation based on loan portfolio size & default rates
- Interest subsidy (~1%- 2%) after 2 yrs of operation, if meets pre-set CUF target
- Defaulters excluded for 3-5 years & penalized @ 2-3% interest rate for next project
- Centralised Credit information bureau may help in reducing default rates

Scheme Performance Evaluation *(after 5 yrs of operation)*

- Additional loans disbursed solely as a result of the guarantee scheme
- Additional employment generated on account of these loans
- Additional direct revenue/indirect revenue generated by the beneficiary projects



Credit Guarantee scheme will lead to significant economic additionality

SN	Description	USD Million
1	Size of the fund	14.77
2	Total Guarantee Commitments	147.69
3	Total Loan Disbursed (25% risk with the banks)	196.92
4	Equity Contribution (20%)	49.23
5	Total Size of the Projects	246.15
6	Default Rate	5%
7	Total Defaults	9.85
8	Coverage by Guarantee Fund	75%
9	Total Pay-out by Guarantee Fund	7.38
10	Interest Subsidy	1.5 %
11	Total pay-out towards interest subsidy	5.08
12	Net fund after 8 years	15.38

Impact on Beneficiaries

- Total Project Size- USD 246.15 Million
- Net Returns- USD 180.77 Million

Impact on FIs

- Net Inflow-USD 100.46 Million
- (Banks will have cost of funds to offset against it)*

Fund will be able to [sustain for a period of 8 years](#) under the current assumption set.



THANK YOU

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Our Offices and Core Markets



○ Core Markets

● Meghraj Capital Advisors Offices

● Meghraj Group Investment Banking Offices

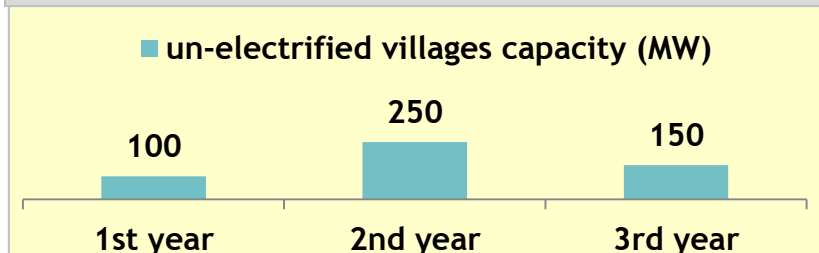
● Other Group Offices



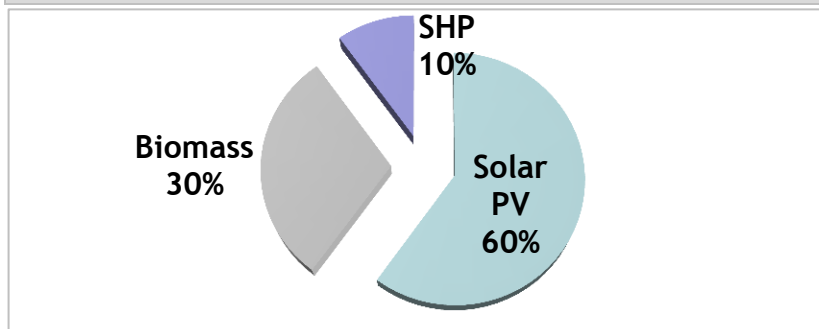
Scheme is expected to cater to 40% or 200 MW of the potential market

SN	Particulars	Unit	Value
1	Reqd. Capacity Addition	MW	500
2	Market to be covered	MW	200
3	Per MW rate of Solar PV	USD Million/MW	1.38
4	Per MW Rate of Bio-mass		0.92
5	Per MW Rate of SHP		1.23
6	Contribution of Solar PV	%	60%
7	Contribution of Bio-mass	%	30%
8	Contribution of SHP	%	10%
9	Wtd Average Cost per MW for the suggested mix	USD Million/MW	1.23
10	Total Cost towards new capacity addition	USD Million	246
11	Debt Financing (@80%)	USD Million	197
12	Coverage Ratio of Guarantee	%	75%
13	Assumed Leverage	No.	10
14	Size of the fund	USD Million	15

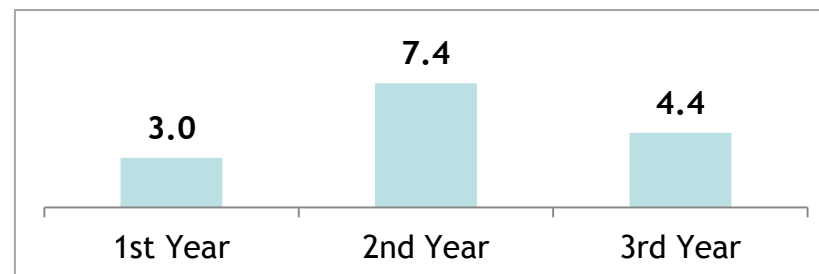
Potential market for CGS



Source mix for capacity addition



USD 14.8 Million Corpus in 3 tranches



As per current benchmark capital cost (MNRE)

