

KIIFB NEWSLETTER

Vol 1. Issue 10.1



DEFINING THE FUTURE



Our Chairman

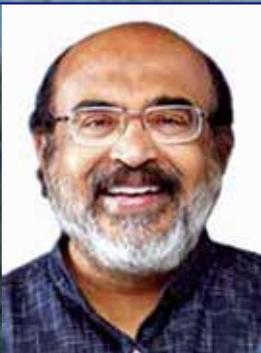
Shri. Pinarayi Vijayan
Hon. Chief Minister

From the CEO's desk.....

The much-awaited international ratings of KIIFB have come. This is indeed a boost for KIIFB to move forward on its path with renewed energy and optimism. Both Standard & Poor (S&P) and Fitch International, which were the two international agencies selected through due process as rating agencies have accorded us 'BB' ranking. This rating, it is understood, is the best that has been accorded to any State Government or agency in an international rating exercise.

For the KIIFB team the rating is indeed a matter of satisfaction. The rating exercise is, by far, one of the most rigorous evaluations that the rated agency (in this case KIIFB) and the parent State Government (in this case the Government of Kerala) has had to go through. Very competent teams of finance experts from both the public finance side and the financial markets side are deputed by these firms to sit with our team. Reams of documentary material and evidence is collected from various state government departments and agencies. Excel sheets with supporting financial data are exchanged back and forth till the Rating teams are satisfied about their accuracy and completeness.

I have to mention here that both the rating agencies had long sessions with our Vice Chairman Dr. T. M. Thomas Isaac, Hon'ble Minister for Finance. From the feedback received about these sessions, the Hon'ble Minister argued our case with the brilliant eloquence of a professor and with the zeal expected from someone who understands the strategic importance of the unique experiment being undertaken through KIIFB. Our Finance Secretary, Shri. Manoj Joshi very systematically and impressively set out the contours of the robust financial administration in the State.



Our Vice Chairman

Dr. T M Thomas Isaac
Hon. Minister for Finance

Thanks are due to our entire team led by Shri. Sanjeev Kaushik, Principal Secretary (Finance Resources) & the Deputy Managing Director of KIIFB, the F&A team particularly, Smt. Anie Jula Thomas, Joint Fund Manager, Sri. Deepu Jacob, Assistant General Manager (Institutional Finance), Sri. Hemanth R S, Assistant who struggled hard to put together the huge mass of data that had to be furnished for this evaluation. Finally, on the advice of our Banking Advisors to the issue, the evaluation process culminated in a presentation by the CEO and Sri. Sanjeev Kaushik, Deputy Managing Director before the two Rating Agencies in Singapore and Hong Kong.

A special word of thanks is due to the excellent support rendered by our Advisors, viz. Axis Bank and Standard Chartered Bank. They had the interests of KIIFB as their client uppermost while guiding us through the process.

This fortnight saw the signing of the MOU between the Devaswom Board, the Devaswom Department of Government and KIIFB. The signing was done in an elegant function in the Secretariat presided over by Sri. Kadakampally Surendran, Hon'ble Minister (Devaswoms). The MOU was signed by Sri. K. R. Jyothishilal, Principal Secretary on behalf of Devaswom Department and Sri. N. Vasu, the Devaswom Commissioner. The Presidents of the Travancore and Malabar Devaswom Boards were in attendance. Works for Rs.150 cr. are to be taken up. Once the projects are completed, it will in fact be a great blessing for devotees who throng to the famed pilgrimage centre of Lord Ayyappa in Sabarimala.

For the focus projects in this edition, we have selected Government Devadhar HSS, Tanur falling in Tanur Assembly Constituency of Malappuram District and the Model Residential School in Thonnakkal. Both are very critical projects that will help many beneficiaries from the marginalised sections of our society.

The Inspection Wing has taken up the following projects for inspection the past fortnight viz: Setting up of Cathlabs & CCUs under Health Sector and projects under Scheduled Caste Scheduled Tribe Development Department (SCSTDD).

More in the next edition. Happy reading...

Chief Executive Officer, KIIFB

NEW AND INNOVATIVE INFRA SOLUTIONS

The Indian economy has witnessed rapid growth over the past two decades. The needs of a growing population have put much stress on physical infrastructure such as electricity, railways, roads, ports, airports, irrigation, water supply and sanitation. Such infrastructure is already suffering from substantial deficits, both in terms of capacities as well as efficiencies.

Various studies have reported the dependence of economic growth of a country on its infrastructure. Hence, in order to achieve sustainable accelerated economic growth, it is imperative that this infrastructure deficit is overcome and adequate investment takes place to support an improved quality of life, both for urban as well as rural communities.

The Twelfth Plan document estimates that investment in infrastructure will need to expand from about US\$500bn in the Eleventh Plan period to about US\$1trn during the Twelfth Plan. Half of this investment is expected to be contributed by the private sector. The remaining half is expected to be contributed by the public sector. Looking at the actual total investments of about US\$500bn in the infrastructure sector in the eleventh plan, the investment requirement both from the public sector and private sector in the twelfth plan seems difficult to achieve unless funding through innovative means is brought into this sector.

A large part of private-sector funding comprises debt (usually 70% of funding in private-sector projects is debt). So far, the infrastructure sector has been heavily dependent on commercial banks for its debt funding requirement. However, with a limited number of private-sector developers and infrastructure projects getting larger in size, banks are quickly reaching their exposure limits. Many of the projects require more than 20-25 lenders to reach financial close. In addition, higher capital requirements under the impending Basel III norms would restrict banks' support to the infrastructure sector in future, especially in greenfield projects.

Internationally, a large part of the funding requirement of the infrastructure sector is taken care of by the debt capital markets. However, the corporate bond market in India is at a nascent stage and there are issues relating to the appetite of investors; regulation, liquidity etc. Lack of adequate and long-term hedging options at reasonable prices restricts the inflow of overseas funds.

Thus, there is a need to develop alternative and



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Chairman & Managing
Director Kerala Financial Corporation*

innovative channels/models of debt funding. One such alternative model is through setting up specialised infrastructure finance entities in emerging markets. Given below are the key features of the model:

i) Strong government support – Strong government participation for the company to achieve a systemic level of significance in terms of its ability to support the sector not only with financing and advisory services but also in terms of influencing policy in the right direction.

ii) Having a strong and well-diversified shareholder base comprising institutions that bring different but complementary capabilities. These would include multilateral and strategic private sector partners with strong skills in project finance.

iii) Structure - Such companies are set up as non-banking financial companies (NBFCs) under a joint venture between the private, public and multilateral sector investors and are focused solely on financing the infrastructure sector. These companies can effectively provide financial support to infrastructure projects, thereby making them a financially viable proposition for the private sector. Bankability of the project in turn ensures that the financial support brings maximum efficiency gains from the scarce taxpayer funds.

iv) Ability to raise long-term funds – Such institutions are structured to raise long-term funds from the market, particularly from institutional investors such as pension funds. These institutions do not accept deposits from the public. Hence they do not face asset liability management constraints like banks and have a greater flexibility compared with banks, which are constrained by several regulatory provisions driven by their deposit-taking character.

v) Specialised focus on the infrastructure sector - Such companies are focused solely on the infrastructure sector, which enables them to develop specialised knowledge of various aspects of the infrastructure finance market, often considered to be highly complex. The specialised knowledge base so developed allows such companies to deliver good projects, and provide high-quality advice and suggestions to a wide range of stakeholders, including the government, sponsors, investors and lenders. Thus, such institutions perform the dual role of a financing partner as well as a knowledge partner, thereby adding considerable value to the sector as a whole.

vi) Multiple investment options for investors- Infrastructure projects often carry high risks, as not all factors work under a controlled environment. A specialised infrastructure finance company can provide different types of instruments, such as mezzanine financing, equity participation, convertibles, guarantees and other forms of credit enhancement to make infrastructure financing viable for both developers and investors. Availability of multiple investment options enables various investors having different risk appetites to invest in the sector.

vii) Support development of domestic capital markets - An infrastructure finance company can support the development of the domestic capital markets by providing standardised quality products, such as corporate, project level and pooled asset bonds, for investors. Since most infrastructure projects earn revenues in local currency, development of domestic capital markets is perhaps the only viable long-term solution for infrastructure to be financed in a sustainable manner. A well-functioning infrastructure finance company can play a key role in getting broad-based support for best practices in contract structuring, investor rights, due diligence, environmental standards and reporting mechanisms.

Some examples of countries where such companies have been established successfully along these lines are given below:

i) Indonesia - In 2012, a similar company, Indonesia Infrastructure Finance has been set up in Indonesia, which is a joint venture between the Government of Indonesia, the IFC, DEG, ADB and Sumitomo Mitsui Banking Corporation of Japan.

ii) Colombia - In 2014, formation of a similar company in Colombia named Financiera Desarrollo Nacional was announced. FDN was created by converting an existing state-owned company that was relatively inactive into a specialised infrastructure finance company. The IFC and CAF have contributed to the equity of the company, while the government holds the main shares. Private sector investor 5MBC has also joined the company. FDN is expected to play a catalytic role in the financing of infrastructure sector of Colombia. The company will initially focus on the toll-road programme and at a later stage will venture into other projects in different infrastructure sectors.

iii) Other international examples of similar entities include Green Investment Bank, UK; Infrastructure Australia, Australia; Infrastructure Ontario, Canada; PIMCA, South Korea; and National Public Investment System, Chile, among others.

However, in order to ensure that such institutions perform to the best of their capability, the government needs to allow a board-driven management and provide such companies with greater flexibility to attract and retain talent by paying market-linked compensation. The government may layout a charter for such institutions and review it periodically.

Setting up of new such institutions may take some time but since India's infrastructure requirements are immediate, some of the existing institutions may be repositioned as specialised infrastructure financing institutions. Many such institutions are needed and we may consider setting up more sector-specific specialised financing institutions to take care of the large debt funding requirements.

The government's innovative solution to address financial challenges in infrastructure sector is the National Investment and Infrastructure Fund (NIIF). So far, the Indian Government has been spending on the infrastructure sector directly from its budgetary resources. This led to no or little leveraging of the limited public resources.

This will enable the trust to raise debt, and in turn, invest as equity, in infrastructure finance companies such as the IRFC and NHB. The infrastructure finance companies can then leverage this extra equity, manifold.

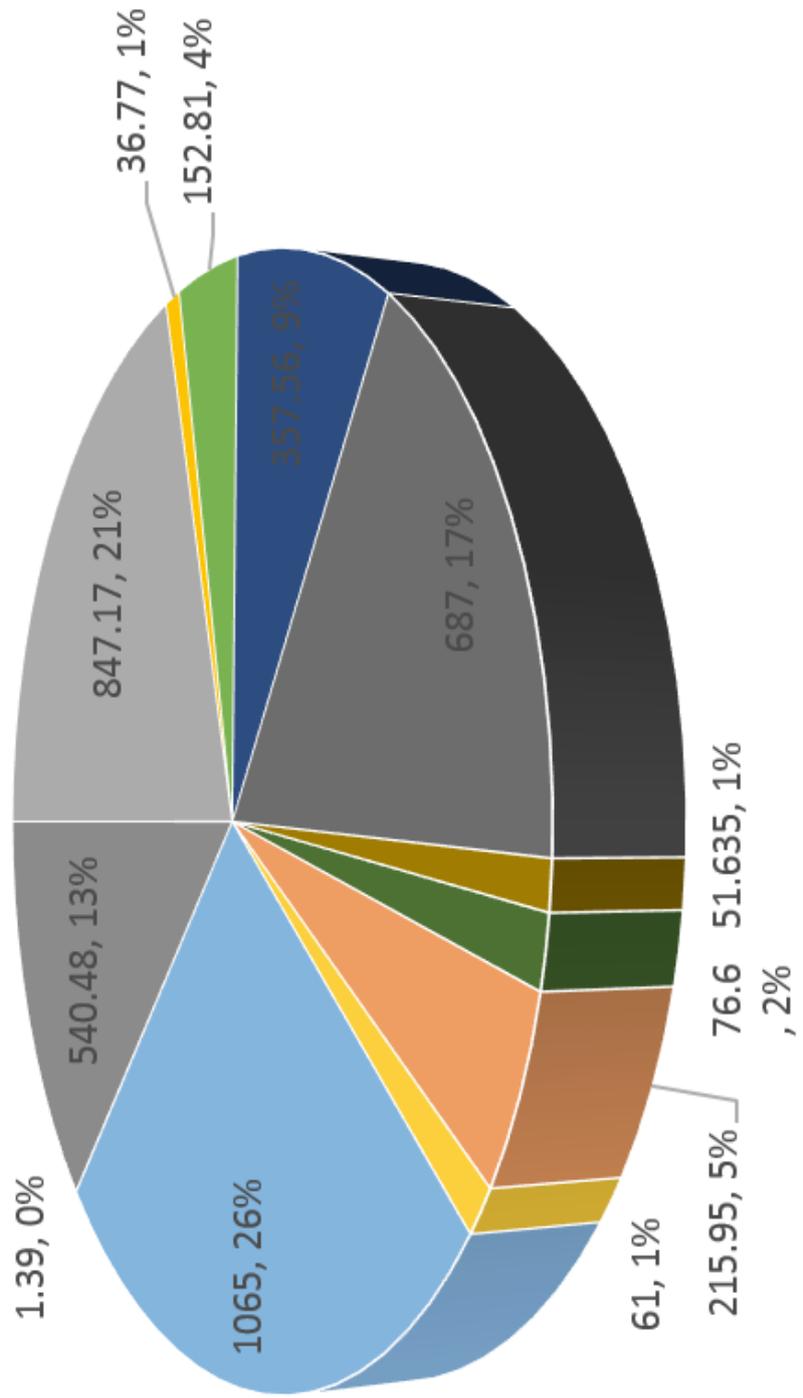
PROJECT STATUS

Department Name	Projects Approved by KIIFB	
	No. of Projects	Outlay
Agriculture	1	14.28
Transport	2	412.93
PWD - Roads	119	5051.39
PWD - Bridges	40	1026.67
PWD - ROBs	17	523.80
PWD - Flyovers	9	635.50
PWD - Hill Highways	16	1426.66
PWD - Underpass	1	27.59
Water Resources	37	1803.70
SC / ST	8	138.38
Registration	6	89.88
IT	3	1174.13
Tourism	1	39.42
Health	9	1318.57
Higher Education	8	351.21
Sports	19	351.15
Gen. Edn. (Schools)	74	1731.23
Forest	2	212.18
Devaswom	1	141.75
Industries	2	1565.17
Power	8	5200.00
LSGD	3	31.69
Housing	1	45.00
Total	387	23311.29

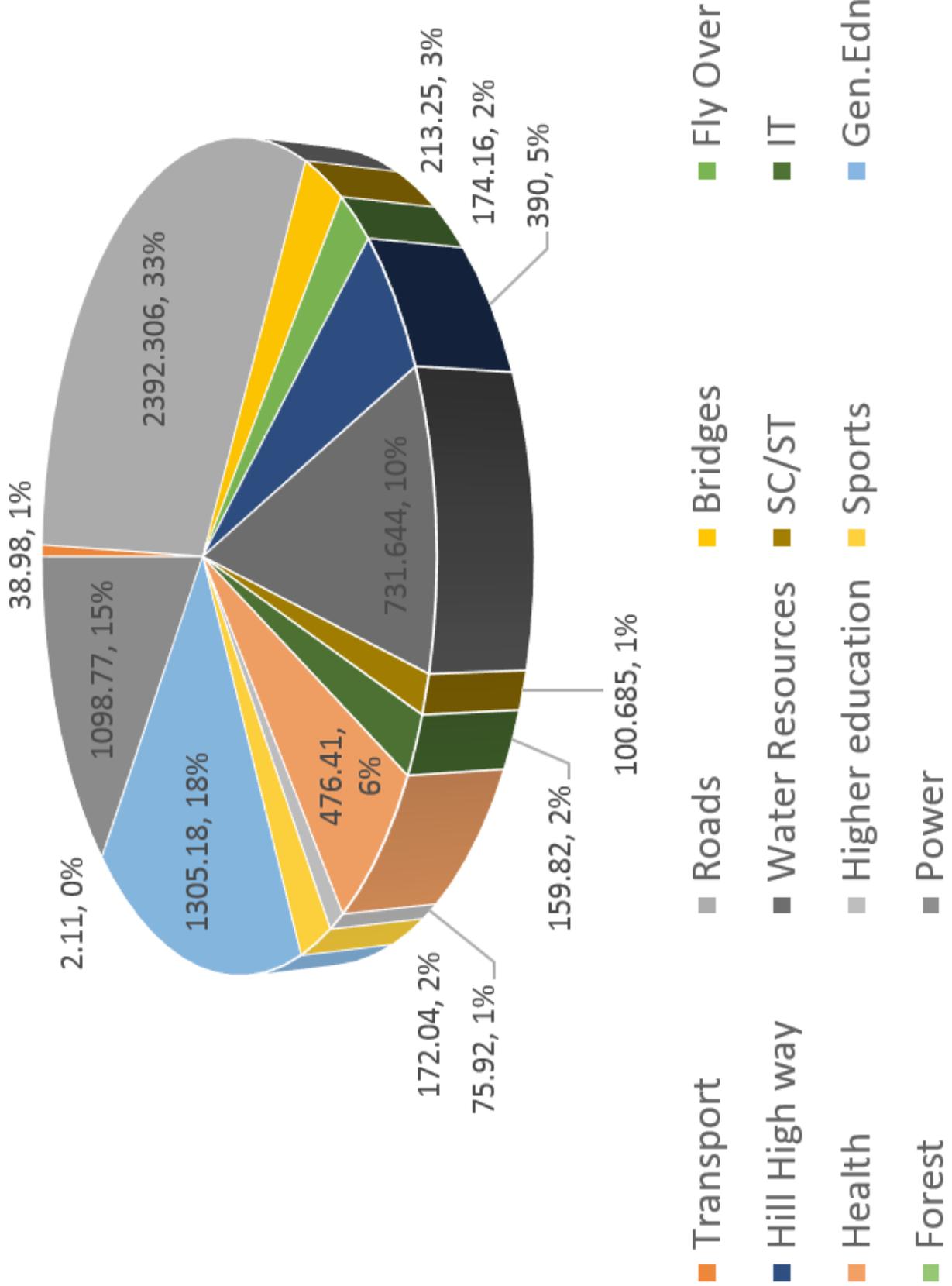
PROJECT STATUS

Department Name	Projects in which works tendered		Projects in which construction works started	
	No. of Projects	Outlay	No. of Projects	Outlay
Agriculture				
Transport	1	38.98		
PWD - Roads	78	2392.306	39	847.17
PWD - Bridges	9	213.25	2	36.77
PWD - ROBs				
PWD - Flyovers	3	174.16	2	152.81
PWD - Hill Highways	4	390.00	4	357.56
PWD - Underpass				
Water Resources	22	731.644	21	687.00
SC / ST	5	100.685	2	51.635
Registration				
IT	2	159.82	1	76.60
Tourism				
Health	7	476.41	4	215.95
Higher Education	1	75.92		
Sports	12	172.04	6	61.00
Gen. Edn. (Schools)	50	1305.18	43	1065.00
Forest	1	2.11	1	1.39
Devaswom				
Industries				
Power	8	1098.77	3	540.48
LSGD				
Housing				
Total	203	7331.275	128	4093.365

Works Started



Works Tendered



FOCUS PROJECT - 1

General Education Department: Upgradation of Government Devadhar HSS Tanur, Tanur Assembly Constituency, Malappuram District

KIIFB's financing portfolio is not just limited to physical and economical infrastructure. With the financing of Government of Kerala's ambitious Protection of Public Education (PPE) Mission, KIIFB is expanding its project portfolio into Education Infrastructure as well.

Government of Kerala through its ambitious education development programme "Protection of Public Education (PPE) Mission" targets to upgrade the public education system of Kerala to international standards. One of the objectives of the mission being Upgradation of physical infrastructure through adding class rooms, laboratories, libraries, extra-curricular infrastructure and facilities required for school hygiene, sanitation and security.

In realising the objective of upgrading the physical infrastructure in Phase 1, KIIFB is funding the Upgradation of 141 High schools (One each in each assembly constituency) as "Centres of Excellence" at an estimated cost of Rs.5 cr. each. Under the project, Government Devadhar HSS, Tanur falling in Tanur Assembly Constituency of Malappuram District is chosen for upgradation.

Devdhar Higher Secondary School, Tanur is one of the oldest schools in the state started in the year 1921. It began with the elementary wing. The school was upgraded to a high school in 1952 and a Higher Secondary School on 1991. The present student strength of the school is 4523. The Master Plan for Infrastructure improvement in the school was evolved after wide consultation with school authorities, parent teacher association and other stakeholders. As per the Masterplan, construction of first two storeys of HSS block, entry gate relocation and construction & strengthening of compound walls will be undertaken in phase 1.

Considering the importance of the scheme and its far-reaching positive impacts on the education sector of the region and Constituency, 29th meeting of Board of Directors KIIFB, held on 31.05.2017, approved the project. On ground execution of works, being implemented by Kerala Infrastructure and Technology for Education (KITE), has already been commenced with award of work. Currently construction works at site are actively progressing.



3D View of the Proposed Building at Government Devadhar HSS



Ongoing Construction works

FOCUS PROJECT - 2

Scheduled Caste Development Department: Model Residential School at Thonnakkal, Thiruvananthapuram

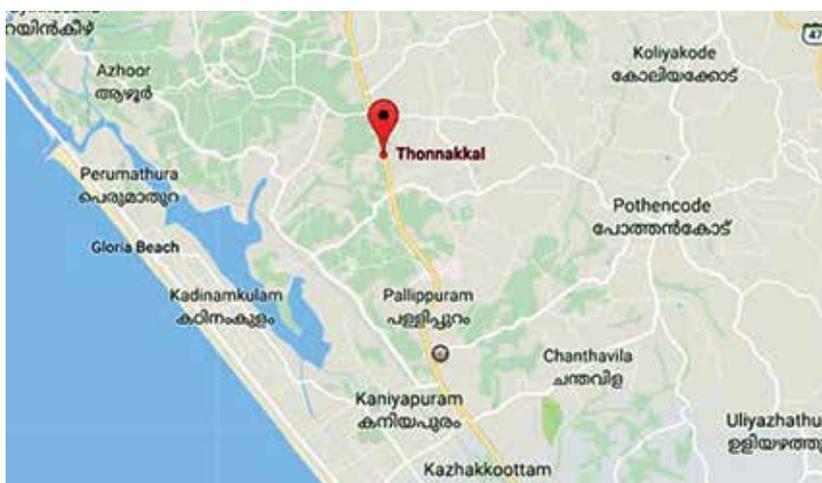
Adhering to the State Government's objective of providing significant inputs for improving the standard of Educational facilities extended to the SC student population, Model Residential Schools (MRS) have been discerningly identified as an eligible segment to

The project proposes to construct an academic and administrative block, hostel building, kitchen block and staff quarters – Type II quarters 1 block of 6 units and Type I quarters 1 block of 4 units.

As Thiruvananthapuram District has no MRS for students above 4th Standard, this Project will enable students of the poorest sections of the SC Community in the district to complete matriculation in relative comfort.

Accordingly, the Model Residential School proposed is for V to X classes with 35 students in each class with a total strength of 210 students.

The MRS is proposed to be constructed in an extent of 167 cents (academic and administration block, staff quarters) and 1.43 acres (Hostel and kitchen block) owned by the government.



be promoted. Certain Projects in this regard have been assigned to KIIFB for funding. One among these Schools is the MRS at Thonnakkal. The Project Report has been prepared by the Kerala State Construction Corporation Ltd (KSCC) for the SC Department.

The functional design is based on the requirements provided by the STDD department, guidelines form the UNICEF & KBR norms

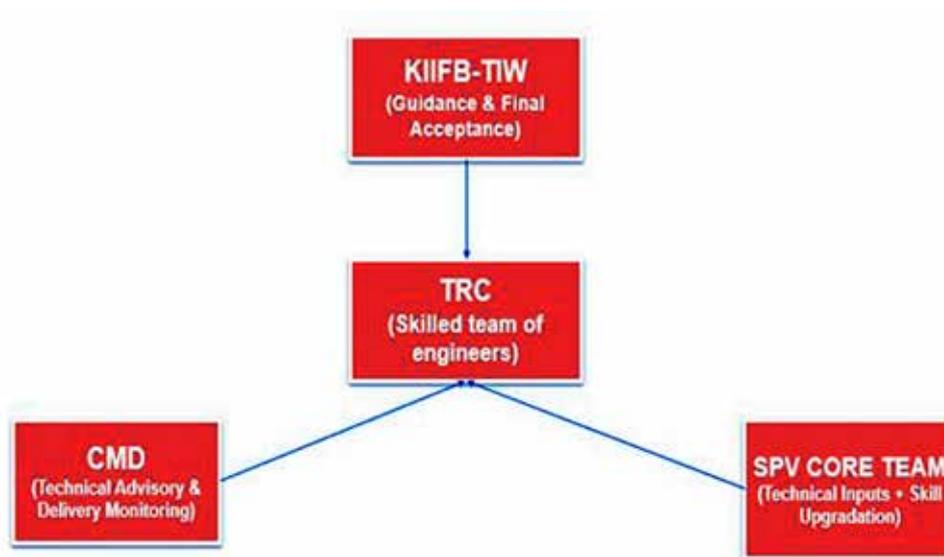
The amount approved by KIIFB for the project is Rs. 15.97 Crores. Work has been tendered by the SPV.

Technical Resource Centre – A CMD initiative for KIIFB

One of the major objectives of Kerala Infrastructure Investment Fund Board is the capability development of various departments in public sector and Special Purpose Vehicles associated with KIIFB. In the earlier publications, we have discussed about several technical advisory and new technology initiatives taken up by KIIFB for better project implementation management, including design, cost and performance optimisation in the post appraisal phase, to be implemented in our projects such as Building Information Modelling, Virtual Design and Construction, Geographic Information System, Work Breakdown Structure, etc. In fact, we are glad that this may be the first time that a government organization is attempting to implement these technologies for infrastructure development projects. To add on, KIIFB's core objective is to develop the capability of SPVs to adapt to these technologies effectively.

candidates from various SPVs on MSP. The purpose of this clinic / helpdesk would be to support SPVs till such time they become competent enough to independently handle uploading WBS.

2) Building Information Modelling –BIM based project management is a flagship initiative of KIIFB and if effectively implemented KIIFB would win laurels from across the world for having changed the face of project management in infrastructure industry. The proposed TRC would have BIM modellers and engineers who would cater to the BIM requirements of KIIFB and SPVs and also a team of experts / consultants in this domain who would hand hold the SPVs in implementing BIM in their live projects. TRC would conduct extensive training programmes in BIM, to candidates from SPVs and KIIFB until they are fully equipped to handle BIM based project monitoring independently.



For the effective implementation of the aforesaid technologies including hands-on training and technical advisory support, KIIFB has entrusted Centre for Management Development (CMD) to open a Technical Resource Centre (TRC). CMD would maintain a highly eminent technical team in TRC, guided by resource persons from various domains who has proved their excellence in their respective domains. The major areas in which the technical resource centre would provide support services to KIIFB would be:

1) WBS clinic – The proposed TRC would operate a helpdesk / clinic which would handhold SPVs to upload the Work Breakdown Structure in Microsoft Project, a widely accepted tool for project management and monitoring. CMD has already provided training to

3) Post processing of visual data – TRC proposes to have a dedicated team responsible for post processing of all the data collected during KIIFB / SPVs drone survey, video data collected from project sites and data pertaining to Quality Monitoring Studio. This not only helps live monitoring and quality management but also helps to track back and retrospect.

4) New Technology Incubator – This initiative of TRC shall work on identifying new technologies / developments in infrastructure development across the globe and would support KIIFB in identifying its scope / viability in projects funded by KIIFB. TRC would also draft technical documentation of these identified technologies.

5) GIS for infrastructure management – The proposed TRC will have a dedicated GIS team who would be responsible for GIS modelling and filed data collection. TRC would help KIIFB develop a GIS based infrastructure mapping of projects funded by KIIFB which would include maximum geographical features of KIIFB projects.

6) Manuals and Technical documents – All technical manuals on planning, design, implementation and quality control of various sectors identified by KIIFB would be issued by TRC and would also draft the quarterly updates of these manuals. These manuals would be technically vet by resource persons of eminence in the respective domain.

7) Training – The proposed TRC shall provide for hands on training and capability development of KIIFB and SPVs. TRC will be equipped with all the state-of-the-art facilities to provide effective training to SPVs and

KIIFB and shall undertake the extended responsibility of ensuring that the SPVs put to use what they learned from TRC.

8) Design upgradation cell – TRC shall focus on KIIFB's initiative to develop roads and highways to world class standards and to create sustainable infrastructure and will have a dedicated team who would work for functional design upgradation and value engineering of KIIFB funded projects. TRC shall also provide the technical documentation support to confirm to the functional design of KIIFB funded roads & highways, as per the planning and design guidelines issued.

KIIFB aims to accomplish its dream of implementing technologies in vogue across the world for progress monitoring and project management through this Technical Resource Centre, initiated and managed through Centre for Management Development.

Kerala, the first state in India to issue Masala Bond

Kerala Infrastructure Investment Fund Board (KIIFB), the primary agency of the Government of Kerala for financing large and critical infrastructure projects in Kerala has successfully established INR 50 Billion (Rs 5000 cr.) Guaranteed Medium Term Note (MTN) Programme. The MTN Programme is dual listed on the International Securities Market of the London Stock Exchange (LSE) and the Singapore Stock Exchange (SGX) and will enable KIIFB to access the international bond market through the issuance of Masala Bonds of up to INR 50 Billion in one or more tranches.

KIIFB is uniquely positioned to access international bond markets owing to the strong support it enjoys from the Government of Kerala, its ring fenced stream of cash flows, comfortable liquidity position and the high governance standards that are legislated under the KIIF Act.

With a view to establishing its credit profile and market standing KIIFB had also undertaken a detailed rating exercise through two international credit rating agencies – Standard and Poor's (S&P) and Fitch Ratings (Fitch). The ratings for KIIFB have been equalized with the rating agencies' assessment of the credit profile of the State of Kerala. Both S&P and Fitch have assigned KIIFB a long term foreign currency rating of BB with Stable outlook. The MTN Programme has also been rated BB with Stable outlook by both rating agencies. Axis Bank and Standard Chartered Bank are the Dealers for the MTN Programme while DLA Piper and Cyril Amarchand Mangaldas are the International

Legal Counsel and Domestic Legal Counsel for this transaction.

This is a significant milestone for not only the State of Kerala and KIIFB, but also for India and the International Debt Capital Markets. Kerala its role as the guarantor to debt issuances of KIIFB has become the first State from India to secure a public international credit rating while KIIFB enjoys the unique distinction of being the first State Government public sector enterprise from India to establish an MTN Programme for raising offshore bonds.

The State Government is extremely proud and pleased with Kerala being assigned the highest public international credit rating for any State in India. This is a significant achievement. The Masala Bonds that KIIFB would raise through the MTN Programme listed in London and Singapore would be a pioneering initiative for Kerala and other States in India could also emulate this to attract global debt capital investors to participate in meaningful and focused infrastructure development in their respective States.

On the back of the international rating and establishment of the MTN Programme, we expect KIIFB to be able to raise Masala Bonds worth up to INR 50 Billion from global investors in one or more tranches in the upcoming months. This would provide KIIFB with an additional stream of capital to finance critical infrastructure projects in the State of Kerala. KIIFB will also try to tap the Middle East market given the strong connection with the State apart from the international finance centres like London, Singapore and Hong Kong.

Inspection Notes....

The project "Setting up of Cathlabs & CCUs" under Health Sector and projects under Scheduled Caste and Scheduled Tribe Development Department (SCSTDD) were selected for review last fortnight by the Administrative Inspection Wing (AIW). There are 10 hospitals identified for Setting up of Cathlabs & CCUs based on a facility survey conducted by KMSCL, the designated SPV. The construction works for CCUs were initially entrusted to KHRWS and the firm completed the works at GMC Ernakulam only and the remaining are delayed. Later the works at the remaining locations were awarded to HLL vide G.O (Rt) No. 2327/2018/H&FWD dated 20.07.2018. The Civil Work of CCU at GMC Ernakulam is progressing and as per the latest status report it would be completed shortly. In the case of remaining locations, HLL is in the process of preparing the estimates. The work is progressing in General Hospital, Pathanamthitta, Medical College, Parippally, District Hospital, Kollam and is expected to be completed soon. Inadequate power supply is one of the main reasons for the lagging of the installation of Cathlab machine at the above hospitals. The works at other locations are also delaying due to the lack of sufficient power supply.

For the projects under Scheduled Caste Scheduled Tribe Development Department (SCSTDD), the Kerala

State Construction Corporation Ltd. (KSSC) is the designated Special Purpose Vehicle (SPV).

The projects by KSSC under this sector are:

- I. Construction of ITIs and other buildings at various locations (5 Nos)
- II. Construction of Model Residential Schools & Quarters (4 Nos)
- III. Construction of Hostels at various locations (13 Nos)

The sub projects under the above main projects are executed through the Regional offices headed by the Southern and Northern Circle offices of the SPV. The AIW has reviewed the sub projects under the Southern Circle office of KSSC at Thiruvananthapuram. Out of the 10 projects in the Southern Circle, 7 have been tendered and of the remaining projects, one is under tendering stage, site for the other one was not finalized and the land was not handed over by the Department in respect of the remaining one. The execution of the tendered projects have been delayed mainly due to the slow pace in handing over the land to the SPV by the Department and not obtaining the statutory clearance from the Local Authorities well in advance. The AIW will inspect the physical progress of the works already commenced, in due course.



K.R. jyothisal, Principal Secretary, Devaswoms; Dr. K.M. Abraham, KIIFB Chief Executive Officer; and N. Vasu, Secretary of the Sabarima Master Plan Infrastructure Fund Board, signing a tripartite agreement in the presence of Devaswom Minister Kadakampally Surendran