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# Hyderabad Secunderabad Direct (HSD) Flyway – Need for Financial Restructuring

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## Abstract

The case study deals with the need for financial restructuring for projects when there is a wide deviation between what is planned and what actually turns out. Most of the projects have very promising business plan but when it comes to execution stage things may not go as per the initial business plan. There comes the need for restructuring of financing plans and also revising business plans. This may be a very difficult situation for projects. Different stake holders, particularly shareholders and lenders, during this stage will be very anxious and impatient. They will be reluctant to re-negotiate further. This will be a tricky situation where formulating a win-win strategy for lenders and shareholders will be very crucial for the sustainability. The case has been disguised to protect the interests of stakeholders. This case is solely prepared for class room discussion.

**Keywords:** Business Plan, Cash Flow, Debt Servicing, Financial Restructuring, Profit After Tax (PAT), Profit Before Tax (PBT)

It was very pleasant and bright morning, when Mr. Ravi Varma, Chief Financial Officer (CFO) reached his office. But, the CFO appeared to be little disturbed and did not notice when his colleague entered his cabin and wished him. His colleague asked him "was everything right as I have not seen you so concerned any time in my association with you for the past few years? Is something bothering you?" Ravi said "as a CFO of the company I am perturbed about the things that are going on in our company. Things are not in line with our business and financial plans. I am thinking hard to find out what went wrong and that is when you entered the room and I did not notice you. Further "Financial institutions want to reorganize the terms of the debt but our present shareholders want to avoid the changes in the conditions of debt. I feel that the project needs operational and financial improvement in order to be economically feasible and profitable. I wonder what options we have in order to survive given the prevailing crisis."

Mr. Ravi Varma is the CFO of Hyderabad Toll Bridge Company Ltd. (HTBCL) which has been promoted by India Financial and Leasing Services Ltd. (IF&LS) as a special purpose vehicle (SPV) to develop construct, operate and maintain the HSD Flyway on a Build Own Operate Transfer (BOOT) basis. It is a public listed company, incorporated in Telengana, India, in 2008 and operates only in India. The CFO was analyzing with growing concern the drop in revenues and operating earning the company was experiencing as a result of reduced traffic on its toll road.

## 1. HSD Flyway

To cater to the needs of increasing population and traffic in the twin cities of Hyderabad[1] and Secunderabad[2], a world class expresses Highway Connecting the two cities was

1 Hyderabad is the capital City of Telangana, India
2 Secunderabad is a twin city of Hyderabad located in Telangana state of India

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commissioned in 2008. It is an eightli ned express way[3] covering a distance of 9.2 K. M. It connects Hyderabad and Secunderabad directly without any hassles in between, hence named Hyderabad-Secunderabad Direct Flyway[4]. It was built and maintained by the Hyderabad Toll Bridge Company Ltd (HTBCL) and promoted by the Infrastructure Leasing and Financial Services (IL& FS). HSD Flyway is the first Toll Plaza in India to be certified ISO: 9001:2008 compliant for excellence in the field of Operations and Maintenance and Customer Services. HSD continues to compete with two old bridges the Musi Bridge and the Necklace Road in Hyderabad, which connect Hyderabad to Secunderabad. But, these bridges have become old and are not able to cater to the needs of traffic especially during peak hours. Apart from that the beauty of HSD flyway is that it is connected to different colonies in both the cities. This makes the travel on flyway more comfortable and happier.

This project by HTBCL included the construction of a flyover at Madina Hyderabad, which is a heavy traffic area and they have handed over it to Public Works Department for maintenance. Another bridge measuring 552 meters was laid from a residential locality connecting the HSD Flyway with a cost of Rs. 4.08 billion (US$60.6 million). Both the roads were open to traffic from February 2008. The whole HSD flyway was developed over a period of 24 months.

## 2. Salient features of HSD Flyway

- 8 lane dual carriageway
- 9.2 Km dual link with two bridges
- Grade separated interchanges
- 32 lane 200 m wide fully computerized Toll Plaza
- Flyover at Madina Crossing
- Extensive tree planting and Land Scaping
- Modern trend in design and construction
- Installation of Noise Barriers
- Special emphasis on Social, ecological and Environment issues.

## 3. Initial Business Plan

The concession period is 20 years. Revenue was expected to be generated from the financial year 2012-13.

- The total cost of the project was Rs. 100 billion. It was financed by leading banking and financial institutions in the following way:
- HDF Bank – 30% @ 12% interest per annum (p.a.)
- SBS Bank – 40% @ 12% interest per annum
- Equity – 30%
- The loan is to be repaid in five equal installments starting from 2018. It is expected that the project would generate enough cash flows in the latter phase so as to repay lender from the financial year 2018-19.
- Annual Operation and Maintenance cost is expected to be 2.5% p.a. of the project cost. In addition to this, there will be a periodic maintenance at the end of every five years starting from 5th year of operation. This will be 5% of project cost. The annual operation and maintenance cost is expected to increase by 2% annually in next 5 years and thereafter it will increase by 1%.
- Revenue is generated from toll from vehicles during the operation period, which is fixed based on technical viability of the project. Toll revenue was expected to be 20% of project in first year i.e., by the end of March, 2013. It is also supposed to increase 10% annually over next 20 years.
- The entire project cost is to be written off using straight line method of depreciation.
- Corporate Tax rate is 34%.

## 4. Actual Results for first five years of operations

- The actual results as shown in table 1 were very disappointing deviating widely from the initial business plan.
- Annual Operation and Maintenance cost was 3% p.a. of project cost with an annual increase of 2%
- Revenue was Rs 6 billion with an annual increase of 10%.
- Since repayment of loan is due from next financial year i.e., March end 2018, financial institutions looked very worried as there was not sufficient cash flow for their repayment.

3 A highway especially planned for high speed traffic

(Rs. in billions)

**Table 1.** Financial Results for First Five Years

| Years | 2012-13 | 2013-14 | 2014-15 | 2015-16 | 2016-17 |
|---|---|---|---|---|---|
| Toll Revenue | 6.00 | 6.60 | 7.26 | 7.98 | 8.78 |
| Less: Operation and Maintenance | 3.00 | 3.06 | 3.12 | 3.18 | 3.24 |
| Interest on Loan | 8.40 | 8.40 | 8.40 | 8.40 | 8.40 |
| Depreciation | 5.00 | 5.00 | 5.00 | 5.00 | 5.00 |
| Profit Before Tax (PBT) | -10.40 | -9.86 | -9.26 | -8.59 | -786.27 |
| Less: Tax | Nil | Nil | Nil | Nil | Nil |
| Profit After Tax (PAT) | -10.40 | -9.86 | -9.26 | -8.59 | -7.86. |
| Project Cash Flow | -5.40 | -4.86 | -4.26 | -3.59 | -2.86 |

## 5. The Situation in April, 2017

Mr. Ravi Varma is now very much aware of importance of widening up the initial financing of investment under circumstances which are very much different from those originally planned when the construction activities began. As a result of drop in the operating revenue, the project's financial viability is being seriously threatened. Now, it was decided to modify the initial business plan as below in table 2.

**Table 2.** Revised Business Plan

| Years | 2017-18 | 2018-19 | 2019-20 | 2020-21 | 2021-22 |
|---|---|---|---|---|---|
| Decline in Revenue from the initial years projected revenue | 15% | 12% | 9% | 6% | 3% |
| Operating & maintenance cost<br>(as a % of project cost) | 3% | 3% | 2.5% | 2.5% | 2.5% |

From 2020-21 onwards, the revenues are expected to remain same as in the initial business plan. Further, now the project would need 20 billion more to ensure financial viability of the project. Both shareholders and financial institutions are not willing to extend the financial requirement to the project. As the repayment is to start from 2015-16 and firm is going through the deep financial crisis, it is the time to renegotiate the terms of repayment with the financial institutions.

## 6. Learning Objectives

- To understand the deviations in business plan and actual results
- To formulate the financial restructuring plan
- To revise the initial business plan

**Position in Course –** This case can be used for Financial Management course in MBA Programme.

## 7. Assignment Questions

1. How the further requirement of Rs. 2000 crores can be financed?
2. What can be the renegotiations terms of repayment?
3. How the interest of the shareholders is going to be affected in the time to come?

## 8. Teaching Plan

- Need for new financing (15-20 mins)
- Sources to used for financing (15-20 mins)
- Term of renegotiation with both the stakeholders (15-20 mins)
- Interest of shareholders (10-15 mins)

## 9. Analysis – suggested answers

1. How the further requirement of Rs. 20 billion can be financed?
   - A look at the financial results of last five years shows that firms will not be able to start repaying it loan from the next financial years.
   - Now, if the further capital requirement of Rs. 2,000 crores is met, then firm will not be able to meet it operational expenses.
   - Neither lender nor owner would be willing to bring in further capital at the present point in time.
   - Firms can try to raise additional financial requirement of Rs. 2000 crores in numbers of ways as below:
   - Convince shareholders to bring in further requirement
   - Convince lender to lend more
   - It may go for a mix of both debt and equity.
2. What can be the renegotiations terms of repayment?
   - Investors would be willing to invest further only if they look at bright future for the firm.
   - To service the present debt of Rs. 70 billion, firm needs a cash flow of Rs. 19.41 billion p.a. The loan repayment schedule can be shown as below (in billions)

**Table 3.** Loan Amortization Table

| year | Loan Instalment | Interest | Principle Repayment | Principal Outstanding |
|---|---|---|---|---|
| | | | | 70.00 |
| 31-03-2018 | 19.41 | 8.40 | 11.01 | 58.99 |
| 31-03-2019 | 19.41 | 7.07 | 12.34 | 46.65 |
| 31-03-2020 | 19.41 | 5.59 | 13.82 | 32.83 |
| 31-03-2021 | 19.41 | 3.93 | 15.48 | 17.35 |
| 31-03-2022 | 19.41 | 2.08 | 17.35 | 0.00 |

- Project Income Statement for Next five years in billions

**Table 4.** Income Projections for Next Five Years

| | 2017-18 | 2018-19 | 2019-20 | 2020-21 | 2021-22 |
|---|---|---|---|---|---|
| Toll Revenue | 17.04 | 17.60 | 18.20 | 18.80 | 19.40 |
| Less: operation & Maintenance | 3.00 | 3.00 | 2.50 | 2.50 | 2.50 |
| Interest on Loan | 8.40 | 7.08 | 5.60 | 3.94 | 2.08 |
| Depreciation | 5.00 | 5.00 | 5.00 | 5.00 | 5.00 |
| PBT | 0.64 | 2.52 | 5.10 | 7.36 | 9.82 |
| Less: Tax | 0.22 | 0.86 | 1.74 | 2.50 | 3.34 |
| PAT | 0.42 | 1.66 | 3.37 | 4.86 | 6.48 |
| Project cash flow | 5.42 | 6.66 | 8.37 | 9.86 | 11.48 |

- From the above income statement, we can see that firm will not in a position to service debt for next five years. But we can see that the firm will be able to generate positive cash flows. This should be highlighted to lenders. The company should pursue them further and try to renegotiate some of the terms and condition as below:
  - Delay the repayment by 2 or 3 years
  - Spread the repayment period to 8 or 10 years

- Reduce interest rate in the initial years of repayment.

3. How the interest of the shareholders is going to be affected in the time to come?
    - Projecting the interest of the shareholder would be the most important agenda on part of the management of the company. Otherwise, management would loose the trust of the shareholders. Already, shareholders will not be willing to listen as the initial business plan has deviated too much.
    - The management should prepare cash flows statement for remaining financial year with greater accuracy. The future cash flows should look impressive and firms should try to surpass the expectations of the shareholders

## 10. References

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