

Case Study

Suriname Hydropower Services Company

The Project

This is a financing proposal for the privatization of the Suriname Hydropower Services Company. The proposed buyer is a small privately owned Surinamian engineering firm that has very limited access to local bank financing. The buyer's business has been built up from a small hydroelectric installation firm and the family's ownership and involvement in SHS is regarded as essential for the company's ongoing success and growth. The chief engineer is a Dutch national of Suriname origin who has decided to return to his home country. He has already negotiated a power supply contract with Rusal, the Russian aluminum company which is expanding its operations in Suriname.

The Government of Suriname has agreed to sell the business for Eur18 million, a 20% premium above the appraised value of the assets. The local company has reached an agreement with a Dutch engineering consulting firm which will ensure that future construction meets EU standards. The Surinamians will contribute Eur 3 million and their own equipment in exchange for 51% of the equity, and the Dutch firm will contribute another Eur 2 million for which it will receive 25% of the equity. The remaining funding must come from outside equity, senior secured debt, and subordinated (mezzanine) debt. The mezzanine will be provided by the Dutch Emerging Market Fund (DEMF).

Assignment

The following preliminary financing plan has been proposed. It must be refined in order to meet all the parties' objectives and provide a fair return to investors. Lenders must be repaid, and return objectives must be met for the mezzanine and equity investors. The terms of the IFC investment have been left blank for you to suggest a suitable rate and repayment schedule.

Can you help structure the financing? You may use the financial information provided in the spreadsheet [suriname.xls](#).

Preliminary Financing Plan

<i>Source</i>	<i>EUR millions</i>	<i>%</i>
<i>Equity/Subordinated Loan</i>		
Surinamian Sponsor Equity	3.0	
Dutch Sponsor Equity	2.0	
IFC Subordinated Convertible Loan	2.0	
Sub total	7.0	38.9%
<i>Mezzanine Loan</i>		
DEMF	1.5	
Sub total	1.5	8.6%
<i>Senior Loan</i>		
Bank group A	7.0	
Bank group B	2.5	
Sub total	9.5	52.5%
<i>Total Financing</i>	18.0	100%

Preliminary Terms and Conditions

Interest Rate Margin	<p>a. Senior Loans:</p> <ol style="list-style-type: none">1. A Term Loan: 4% per annum2. B Term Loan: 5% per annum. <p>b. Mezzanine Loan: the aggregate of:</p> <ol style="list-style-type: none">1) Mezzanine Loan Fixed Interest Rate Margin: 7% per annum; and:2) Mezzanine Loan Variable Interest Rate Margin: 1.2% of the gross revenues of the Project during the semi-annual period immediately preceding the Interest Payment Date until an internal rate of return of 17% per annum has been realised on the Mezzanine Loan and thereafter 0.6% of the gross revenues of the Project. <p>The internal rate of return calculation shall take into account i) the principal Disbursements, Repayments and Prepayments, ii) the Interest Rate payments and iii) the front end fees. For the avoidance of doubt, appraisal fees and loan administration fees shall be excluded from the calculation.</p> <p>This Mezzanine Loan Variable Interest Rate Margin will remain due and payable until the seventh anniversary date of execution of the Loan Agreements irrespective of whether or not the Mezzanine Loan has been (partially or fully) repaid.</p>
Interest Rate Basis	Six-month EURIBOR (initially 3%).
Interest Payment Dates	Semi-annually, [15 June and 15 December]
Default Interest	2.0% per annum over the Interest Rate Margin plus the cost of funding the overdue amount.
Commitment Charge	0.5% per annum of the undisbursed amount of the Loans commencing on the day of execution of the Loan Agreements.
Repayment Dates	Senior Loan A: 3 year bullet Senior Loan B: 5 year bullet Mezzanine Loan: 7 year bullet.

Voluntary Prepayment

The Borrower may prepay all or part of the Loans on any Interest Payment Date subject to the following:

- a. All prepayments must be allocated pro rata between the A Loan amount and the B Loan amount.
- b. Prepayment fee: 2% of the amount prepaid of the Senior Loans with a step down to 1% after the third anniversary date of execution of the Loan Agreements. None for the Mezzanine Loan.
- c. Minimum voluntary prepayment amount: EUR 1 million and in multiples of EUR 0.5 million.

Terms of Subordinated Convertible Debt

Type of Claim	Junior Subordinated Debt
Draw down	In one tranche within 30 days of closing of the Principal Agreements and fulfilment of any conditions precedent set out therein.
Repayment of Facility	Repayment will start in ___ years.
Maturity	Final Maturity date is ___ years.
Interest	The Subordinated Convertible Debt will have an interest rate of ____. Deferment of this interest is permitted. If deferred, the interest will be cumulative.
Conversion option	To be negotiated.
Ranking	The Subordinated Convertible Debt will rank at least pari passu with all the unsecured and subordinated obligations of the Borrower.

Spreadsheet **suriname.xls**

Uses of Funds

Appraised Value		15
Premium	20%	3
Fees & expenses		
Acquisition cost		18

Sources of Funds		Required Return	Interest Rate	% of Total Funding
Sponsor Equity	5.00	35.0%		27.8%
Outside Equity	2.00	25.0%		11.1%
Senior Debt Capacity (at 3.0X EBITA)	9.45	7.5%	7.0%	52.5%
Mezzanine Debt Required	1.55	17.0%	10.0%	8.6%
Total	18.00	17.9%		100.0%

(EUR in Millions)

Assumptions	2005	2006	2007	2008	2009	2010
Revenue Growth		20.0%	20.0%	10.0%	10.0%	10.0%
EBITA Margin %	15.0%	15.0%	15.0%	20.0%	20.0%	20.0%
Capex Growth		5.0%	5.0%	5.0%	5.0%	5.0%
Net Working Cap (% of Rev)		10.0%	10.0%	10.0%	10.0%	10.0%

Cash Flow Analysis

Revenue	21.00	25.20	30.24	33.26	36.59	40.25
EBITA	3.15	3.78	4.54	6.65	7.32	8.05
+ Depreciation	2.00	2.10	2.21	2.32	2.43	2.55
- Capex	(3.00)	(3.15)	(3.31)	(3.47)	(3.65)	(3.83)
- Incr in Net Working Cap	(0.80)	(0.42)	(0.50)	(0.30)	(0.33)	(0.37)
FCF Before Financing	1.35	2.31	2.93	5.19	5.77	6.41
-Senior Debt Interest (A)	7.00%	(0.43)	(0.33)	(0.10)	(0.00)	(0.00)
-Senior Debt Interest (B)	8.00%	(0.20)	(0.20)	(0.20)	(0.02)	-
- Mezz Debt Interest	10.00%	(0.16)	(0.16)	(0.16)	(0.16)	(0.00)
- Mezz Variable Interest	1.20%	(0.30)	(0.36)	(0.40)	(0.44)	(0.48)
- Taxes @ 30%	30%	(0.81)	(1.05)	(1.74)	(2.01)	(2.27)
= FCF after Financing		0.92	1.40	3.19	3.60	4.14
Cumulative Excess Cash						
Beginning Cash		-	(0.00)	(0.00)	0.00	0.00
Interest @	3%	-	(0.00)	(0.00)	0.00	0.00
Increase in Cash		0.92	1.40	3.19	3.60	4.14
Repayments on Senior A		0.92	1.40	3.19	1.45	-
Repayments on Senior B					2.15	0.30
Repayments on Mezz						1.55
Ending Cash		(0.00)	(0.00)	0.00	0.00	2.29