

**Tarasov, Aleksey A.**, Russian Presidential Academy of National Economy and Public Administration, Moscow, Russia.

## ABSTRACT

The article analyzes the features of syndicated loans for transport companies. The purposes for which borrowers from the transport sector raise funds, and the requirements for provision of financial and information materials within the

transaction are considered. The key stages of the process of attracting a syndicated loan and functions of its main participants are presented, while the success of the project is determined as the consistency of the results with the objectives of the operation and the set deadlines.

**Keywords:** economy, financing of transport companies, syndicated lending, debt market, corporate finance, transaction conditions, financial management.

**Background.** For borrowers from the transport industry, the syndicated loan market is an important source of fund raising. Syndicated loan is attracted from the debt market through syndication among a broad investors' base [1]. Communication and payments between creditors and the borrower are carried out through a loan agent (which simplifies the administrative and operational burden on the parties involved).

In the framework of a syndicated loan, the borrower's partner banks provide substantial amounts of funds that exceed the possibilities of a bilateral bank loan for various purposes (including investments and mergers and acquisitions).

**Objective.** The objective of the author is to consider financing of transport companies with the help of syndicated loans.

**Methods.** The author uses general scientific methods, economic assessment methods, comparative analysis.

### Results.

#### 1. Goals and sources

Transport companies attract financing for various purposes. The main ones are:

- Bridge financing (short term). It is carried out if the company urgently needs to raise a significant amount of funds before attracting a syndicated loan or placing bonds or shares on the capital markets, as well as for settlements in mergers and acquisitions.

- General corporate goals (medium-term). They are indicated when the corporation will use the borrowed funds to replenish working capital and create a stock of liquidity.

- Refinancing of current debt (medium-term). The goal is: (1) an increase in the average term of the loan portfolio; (2) attracting loans at more favorable rates; (3) diversification of funding sources by raising funds from investors that are not current lenders.

- Financing of mergers and acquisitions (long-term). Such transactions may include acquisitions of Russian and international corporations that are competitors (for horizontal integration, market share growth) or participants in the same transport chain (for offering multimodal transportation services).

- Financing of the investment program (long-term). Includes capital costs, modernization of rolling stock, acquisition of new transport assets, investments in technologies.

- Project financing (long-term). A special kind for business development, when funds are provided for implementation of a separate project, and not directly to the company [2].

The corporation's capital structure serves as a tool for creating shareholder value by implementing investment projects and optimizing the costs of servicing the borrowed funds (weighted-average cost

of capital, WACC). Access to financing is an undeniable competitive advantage.

The instruments of corporate financing primarily include: (1) loans (bank, syndicated, project financing) [3]; (2) bonds (ruble, eurobonds) [4]; shares (floated on both Russian and international exchanges) [5]. At the same time, it is important for management to understand which financial instruments are best used in terms of: (1) the current stage of development (whether the company is private or public, total revenue, etc.); (2) financing objectives (implementation of investment projects, mergers and acquisitions transactions); (3) available sources of financing (funds of shareholders, of local or international investors).

### 2. Features of syndicated loans

The basic structural elements of syndicated loans for transport companies:

1. The volume of the loan: less than 500 million rubles; from 500 million to 1 billion rubles; more than 1 billion rubles.

2. Currency of the loan: rubles, US dollars, euro (it is possible to structure a transaction consisting of several tranches, for example – in rubles and in foreign currency).

3. Term of the loan: short-term (up to 1 year), medium-term (from 3 to 5 years), long-term (more than 7 years).

4. Repayment schedule of the loan: depreciation structure (quarterly or monthly payments of interest and principal amount of the loan), duration of the grace period, terms of early repayment (both at the borrower's decision and at the request of creditors).

5. Interest rate: fixed or floating (tied to the corresponding base rate for the loan currency and the term of the interest period, for example: 3-month Mosprime plus credit margin).

6. Collateral structure: suretyship or guarantees of the borrower's holding company and / or subsidiaries, pledge of assets (rolling stock, vessels), assignment of contractual rights.

7. Financial covenants: ratio of net debt to EBITDA, ratio of EBITDA to interest payments.

8. General covenants: restrictions on payment of dividends, asset sales, mergers and acquisitions, etc.

9. Other conditions: preliminary for crediting, representations and warranties, equivalence and identity of the borrower's obligations to creditors, cases of default.

10. Applicable law: Russian, English or other law. Using English law [6], the documentation corresponds to the market standards of the Loan Market Association (LMA).

To attract a syndicated loan, one of the determining factors for a successful transaction is the preparation of necessary financial and information materials [7].

Table 1

Participants in a syndicated loan

Participant	Description of functions
Borrower	<ul style="list-style-type: none"> <li>Formulates requirements for the structure of the loan (amount, term, repayment schedule, etc.).</li> <li>Conducts preliminary negotiations with banks.</li> <li>Assigns banks to the appropriate roles in the syndicated loan.</li> <li>Participates in the coordination of the time schedule of the transaction</li> <li>In consultation with creditors, appoints legal advisors for the transaction.</li> <li>Coordinates and signs credit documentation.</li> </ul>
«Primary» creditors	<ul style="list-style-type: none"> <li>Form a «senior» syndicate.</li> <li>Participate in structuring the transaction.</li> <li>Get the status of authorized leading organizers.</li> <li>Work on credit documentation.</li> <li>Issue a loan by transferring funds to the borrower through a loan agent.</li> </ul>
Coordinators	<ul style="list-style-type: none"> <li>One or more banks appointed by the borrower from among the «primary» creditors, manage the transaction process.</li> </ul>
Bookrunners	One or more banks appointed by the borrower from among the «primary» creditors, manage the process of loan syndication in the market of bank credit capital, interact with creditors at the stage of «general» syndication.
Creditors joining the transaction at the stage of «general» syndication	<ul style="list-style-type: none"> <li>Form a «general» syndicate.</li> <li>Have a status of authorized leading organizers.</li> <li>Sign credit documentation.</li> <li>Issue a loan by transferring funds to the borrower through a loan agent.</li> </ul>
Documentation agent	<ul style="list-style-type: none"> <li>Appointed by the borrower from among the «primary» creditors.</li> <li>Together with legal advisors and coordinators of the transaction, taking into account the views of the «primary» creditors and the borrower, works on credit documentation.</li> </ul>
Credit agent	<ul style="list-style-type: none"> <li>Appointed by the borrower from among the «primary» creditors.</li> <li>All payments between the borrower and creditors pass through the loan agent, as well as communication and information exchange.</li> </ul>
Legal advisor to creditors	<ul style="list-style-type: none"> <li>Appointed by the borrower in consultation with the documentation agent and other creditors.</li> <li>Works on preparation of credit documentation together with the documentation agent.</li> </ul>
Legal advisor to the borrower	<ul style="list-style-type: none"> <li>Appointed by the borrower.</li> <li>Works with the borrower on the analysis of the prepared loan documentation.</li> </ul>
Independent consultants	<ul style="list-style-type: none"> <li>Prepare an analytical review of the markets in which the corporation operates.</li> <li>In some cases (for example, with debut transactions), reports on operating and financial activities are provided.</li> </ul>
Appraisers	<ul style="list-style-type: none"> <li>If there is a pledge (assets, shares, etc.) in the transaction structure, then the corporation must provide investors with a report on the valuation of the pledged assets, which is done by independent appraisers.</li> </ul>

Approximate content of the information package for transport companies:

- Financial statements for three years of the borrower and guarantors for the loan, prepared in accordance with Russian accounting standards, as well as consolidated statements of the group of companies (or the holding company), which includes the borrower, in accordance with international financial reporting standards.
- A loan portfolio with data on the borrower's debt structure and distribution of debt burden on guarantors (including information on each of the debt instruments: type, volume, currency, issuance date, maturity date, interest rate, collateral, source of financing).
- Financial model for the loan period plus 1–2 years. It should contain the main blocks: assumptions, profit and loss account, balance sheet, cash flow statement.
- Report on the results of the borrower's operations, including data on vehicles, geography

of the business, the dynamics and structure of sales, key customers, suppliers.

- Analytical review of markets (dynamics of volumes and prices, forecasts, competition), on which the borrower works.

Independent valuation of pledged assets.  
The terms of the loan prepared by the borrower and the information package are sent to banks, which, through these materials, receive approval from credit committees to participate in the transaction.

### 3. Preparation for the loan and participants in the transaction

Preliminary preparation for the transaction includes the definition of the purposes of financing, structuring of conditions and performance of necessary intracorporate processes.

Internal corporate aspects are the approval of the transaction structure and plan, the list of participants and their roles (banks, lawyers,



Table 2

## Structure of the Information Memorandum

Section	Number of pages	Brief description
Introduction	5	Key information on the company's business, financial results, markets and strategies. SWOT-analysis.
Credit overview	10	The main loan parameters, parties involved in a transaction.
Company description	25	History of the company's development, shareholders, markets, business processes, assets, subsidiaries, suppliers and customers.
Analysis of financial results	10	Financial performance of the company, historical dynamics, key coefficients. Data on the loan portfolio, creditors and the structure of debt.
Financial model	10	The assumptions and structure of the model are analyzed, the key results are given.
Market overview	10	The main characteristics of the market (or markets) on which the borrower operates are described, competitive advantages and prospects are described.
Transaction schedule	1–2	The dates of the syndication process, the signing of the transaction, the selection of funds are specified.

Table 3

## The process of attracting a syndicated loan

Stage, number of weeks	Participants	Actions
Preparation for the transaction, 4–5	Borrower	<ul style="list-style-type: none"> <li>• Making a decision on attracting a syndicated loan.</li> <li>• Preliminary structuring of the transaction.</li> <li>• Drawing up a list of potential transaction participants.</li> <li>• Passage of the risk management process.</li> <li>• Drawing up the schedule of the movement of the attracted funds.</li> </ul>
Interaction with banks, 3–4	Borrower, «primary» creditors	<ul style="list-style-type: none"> <li>• The borrower sends to banks an information package and preliminary conditions for the transaction to identify interest in the loan.</li> <li>• Banks send letters to the borrower containing bank decisions to participate in the transaction.</li> <li>• The borrower assigns banks to the relevant roles in the transaction.</li> <li>• Development and signing of a mandate letter.</li> <li>• Appointment of legal advisers.</li> </ul>
Syndication process, 4–5	Bookrunners, creditors joining the transaction at the stage of «general» syndication	<ul style="list-style-type: none"> <li>• Drawing up a «long» list of banks.</li> <li>• Bookrunners send letters to the banks from the «long» list with an invitation to participate in the transaction, as well as an information memorandum.</li> <li>• Banks decide to participate in the transaction and start the process of obtaining credit approval.</li> <li>• A «short» list of banks is being formed.</li> <li>• The banks that have received credit approval join the transaction.</li> </ul>
Preparation of credit documentation, 4–5	Legal advisers, documentation agent, creditors, borrower	<ul style="list-style-type: none"> <li>• Preparation of credit documentation is carried out in parallel to the syndication process.</li> </ul>
Signing a transaction and issuing a loan, 1–2	Legal advisers, documentation agent, loan agent, creditors, borrower	<ul style="list-style-type: none"> <li>• Signing of credit documentation..</li> <li>• The borrower fulfills the preliminary conditions for the loan.</li> <li>• Issuance of a loan.</li> <li>• Publication of a press release.</li> </ul>

consultants), risk management analysis, budgeting (drafting the cash flow schedule, planning the costs of servicing the attracted financing), obtaining legal approvals (including consent of shareholders of the corporation).

Having received the relevant conclusions from the banks, the borrower appoints one or several banks as coordinators and bookrunners of the transaction, forms the «senior» syndicate from the «primary» creditors that receive the status of authorized leading organizers. From this pool of banks, the documentation agent, the security agent and the loan agent are delegated. Further, the documentation agent prepares a mandate letter, which legally formalizes the appointment of banks to the roles assigned to them and regulates the conditions and the process of work on the transaction. The main terms of the transaction are attached to the mandate letter. The letter is signed by the «primary» creditors and the borrower. In coordination with banks, the borrower allocates his legal adviser and legal adviser of the creditors.

#### 4. Syndication and credit documentation

In the loan capital market, syndication is conducted by the bookrunners of the transaction. Bookrunners together with the borrower make up a «long» list of banks that did not enter the transaction at the stage of the «senior» syndicate, but nevertheless can become participants in the loan at the stage of «general» syndication. As a rule, such banks are European or Asian universal, or commercial, selectively involved in transactions for Russian borrowers.

Let's consider the main stages of the syndication process. At the first stage, the bookrunners send a letter to the banks from the «long» list with an invitation to participate in the transaction, as well as an information memorandum.

The Memorandum contains a description of the borrower's business and finances, complete information on the main terms of the loan and the implementation of the transaction. Its volume is 75–100 pages. An approximate structure of the information memorandum is given in Table 2.

At the second stage of the syndication, a «short» list is formed from banks that have decided to become creditors. Bookrunners actively interact with these banks, providing the required information and agreeing on the terms of their participation in the transaction on the basis of credit documentation.

At the third stage, banks that have received credit approval join the transaction as creditors and receive the status of loan organizers.

The key aspect of the transaction is the work on credit documentation. The syndicated loan documentation package includes:

- **Loan agreement:** the main legal document containing all the details of the transaction and the terms of the loan.

- **Surety contracts or guarantees:** if guarantors are present in the transaction or guarantees are issued, then such documents are developed in parallel with the loan agreement.

- **Security documentation:** Depending on the structure of the transaction, collateral may include collateral agreements for assets, contracts, bank accounts.

- **Additional documentation:** includes legal opinions regarding the eligibility of the transaction from independent legal advisers.

The legal consultant of creditors works together with the documentation agent to prepare the credit documentation. Each version of the documents is sent to the creditors, who provide their comments to the documentation agent. The borrower also deals with documents with his legal adviser. The term for preparation of papers depends on the complexity of the transaction and the number of iterations of the documentation, during which the comments of the participants in the process are collected. On average, this takes 4–5 weeks, and the debut transactions, as a rule, require more time. Note that the preparation of credit documentation does in parallel with syndication.

#### 5. Transaction's closing

The final stage of the transaction begins with the signing of credit documentation. The signing is controlled by a legal adviser to creditors and is considered a key legal procedure in which all parties involved in the transaction participate.

After the loan documentation is signed and the borrower fulfills the preliminary conditions for issuing the loan specified in the agreement, the creditors issue a loan. All settlements, as well as communication between the borrower and creditors, pass through the loan agent.

**Conclusion.** The article examined the features of syndicated loans, the main stages of procedures for attracting borrowed funds for the borrower from the transport industry with the participation of banking structures. It should be noted that the main criterion for the success of the transaction is the achievement of the goals of attracting loans set in the planning and compliance with the established timeframe.

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Information about the author:

**Tarasov, Aleksey A.** – Ph.D. (Economics), leader of the program Executive MBA, department of Quantitative Methods in Management of Russian Presidential Academy of National Economy and Public Administration, Moscow, Russia, alexey.tarasov@outlook.com.

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