

Asia Pacific Awards 2008

Bank of the Year

SBI Capital

This year, India continues to shine as it managed to maintain an active market amid the financial crisis that has engulfed the Americas, sailed into the European continent and is now slowly unfolding in Asia. Markets expect India and China, the new regional powerhouses, to keep Asia afloat.

In terms of project financing activities though, it's India that has kept up the momentum. And behind that buzz is SBI Capital, which has been the top arranger for the region in the past three years, and 2008 could be its fourth in that position. As international financial institutions trimmed their lending due to market liquidity issues, the Indian state-owned bank remained unaffected and continued to provide loans to the much needed infrastructure developments in the country.

SBI is to India as KDB is to South Korea and Bank of China to China. Being state-owned, it has the obvious competitive advantage on its home turf, in which the participation of international lenders remains limited. SBI Cap's markets are largely focused on domestic affairs, but it just a matter of time before SBI Cap spreads its wings and start grabbing mandates in the regional and international field. The bank was set up as wholly owned subsidiary of State Bank of India in August 1986, and in 1997 the ADB injected equity to have a 13.84% stake in it. It has a dedicated department for project advisory and structured finance, and heading it is senior vice-president and group head Supratim Sarkar.

The bank has a long list of deals in all various sectors. Within the Top 10 deals in the region, it was involved in all the three Indian deals in the list. Leading it is the massive US\$3.2bn debt facility for the 4,000MW Mundra UMPP, the first UMPP in the country. The financing involved many tranches and many lenders, both domestic, foreign and ECAs.

Another key deal is the 13-year US\$280m facility for Petronet LNG for the construction of its Kochi LNG terminal, which comprises a greenfield 5 mmtpa receiving and storage terminal as well as a 2.5 mmtpa regasification and send-out facility at Kochi in Kerala state in southern India.

In the telecoms sector, it arranged the US\$1.628bn financing for Vodafone Essar as well as a US\$882.25m debt facility for GTL's telecom tower financing, the largest passive telecom infra deal in the country. Steel industries were there too, with Essar Steel Hazira and Jindal Steel & Power.

Power Deal of the Year

Mundra UMPP

Size does matter and it is certainly challenging. Making it even tougher for banks to arrange a massive debt facility for a huge project is the fact that it is a guinea pig or a maiden deal for the ultra mega power plant programme that the Indian government has launched to have "power for all" by 2012. The Ministry of Power and the GOI have launched an initiative that facilitates the development of coal-based UMPPs in the country.

The first successfully funded UMPP is the Coastal Gujarat Power plant, a US\$4.256bn 4,000MW coal-fired Mundra UMPP project, and this is PFI's Power Deal of the Year. It raised debt of some US\$3.3bn via SBI Capital, the financial adviser, lead arranger, facility agent and inter-creditor agent.

Of course, it's not all about size (it's the largest power deal and largest PPP in India so far), but no one can deny the difficulty and complicated issues involved in financing such a project, especially in India's power sector where international lenders have hardly stepped in since the Dabhol saga in late 1990s. The deal marked the return of foreign lenders to that sector. The project, being developed on a BOT basis, is sponsored by **Tata Power**, which won the concession through competitive bidding. It also had to procure its own coal supply, and that led to Tata Power acquiring a 30% stake in **Bumi Resources** of Indonesia.

The deal has indeed attracted not only domestic banks but also international financial institutions and multilaterals such as the Asian Development Bank, the International Finance Corp, ECA Korea Export Import Bank and even BNP Paribas, which was supported by Korea Export Insurance Corp. Legal counsels are Chadbourne and Parke for the lenders and J Sagar Associates for the borrower. Technical adviser to lenders was Black & Veatch and insurance adviser was Marsh India.

The project has a rupee loan of a total of Rs58.5bn (about US\$1.46bn) which was committed by banks including SBI, IIFCL, HudCo, Oriental Bank of Commerce and Vijaya Bank. The remaining amount will come from SBI's associate banks.

In order to contain money supply to address inflation, there are restrictions in place on foreign currency borrowings by Indian companies. The financing mix was structured such that ECB is availed to match the amount of imports in the project (about US\$1.8bn), which is not only the maximum allowed by ECB but also alleviates any funding mismatch due to currency variation during the construction period.

The financing of a project of this magnitude had to address various issues and regulatory restrictions, yet it was successfully concluded. Challenging issues included the availability of long-tenor loans as domestic banks usually do not lend more for than 10 years post-commissioning due to asset liability mismatch issues; restrictions on the amount of ECB; sectoral exposure limits for domestic banks; and other requirements such as environment issues.