

Adani Power

Adani's phased approach

With the completion of Rs4,454 crore (about US\$928m) of non-recourse financing, including subordinate debt of Rs107 crore (US\$22.3m), for Phase III (1,320MW) of the imported coal based supercritical power project at Mundra in Gujarat, the stage has been set for the aggressive expansion of the Adani Group in the Indian power sector. SBI Capital Markets (SBI Cap) is the financial adviser and mandated lead arranger for all the power ventures of the group.

As an extension of the Phase III project at Mundra, the company has also started working on the 1,980MW Phase IV thermal power project based on supercritical technology. SBI Cap is arranging non-recourse facilities of Rs7,168 crore (about US\$1.49bn) including subordinate debt of Rs448 crore (US\$93.3m) for the same.

In addition to its plans at Mundra, the group has recently achieved financial close on the proposed 1,320MW Phase I domestic coal based supercritical power project at Tiroda, in the neighbouring state of Maharashtra, and is in the advanced stages of financial close for the 660MW Phase II extension project at the same location. Again, SBI Cap has arranged the entire debt requirement of Rs5,248 crore (about US\$1.09bn) for the Phase I project and is in advanced stages of achieving total debt tie-up of Rs2,162 crore (US\$450m) for the Phase II project at Tiroda.

In addition to the above mentioned projects, having a total generation capacity of 6,600MW, the group has plans to set up generation capacity of 3,300MW based on supercritical technology, with 1,980MW at Dahej in Gujarat and 1,320MW at Kawai in Rajasthan.

During the next financial year (2009/10), the initial stages of the group's power plans – Mundra Phase I and Phase II, accounting for 1,320MW – will go on stream, thus establishing the project execution capabilities of the

Diversified conglomerate Adani Group has secured US\$928m of project finance for its 1,320MW Mundra Phase III project.

Vijesh Thota, manager, **SBI Capital Markets,** describes how this significant deal was transacted.

group. On the offtake side, the company has successfully bid on a competitive basis and entered into several long-term power purchase agreements (PPAs) of 25 years with GUVNL (Gujarat Urja Vikas Nigam Ltd) for 2,000MW, with the state of Haryana for 1,424MW (on a net contracted capacity basis) and with the state of Maharashtra for 1,320MW. The group currently has aggregate firm power offtake agreements for 4,744MW – one of the highest in the country.

Domestic power sector scenario

India's power sector has grown significantly in size and capacity since independence and it is currently the world's fifth largest electricity producer, with a total generation capacity of 141,500MW and its seventh largest consumer of electricity. However, many parts of the country still continue to face severe power shortages as the growth in consumption has outpaced the growth in supply.

Per capita annual consumption of electricity in India is one of the lowest in the world at about 700kWh, compared with the weighted average per capita consumption of about 5,700kWh of the top 100 countries. According to the Planning Commission, additional capacity of about 85GW to 98GW is required by 2012 and about 290W to 353GW by 2022 to realise the "Power for All" objective of the Indian government.

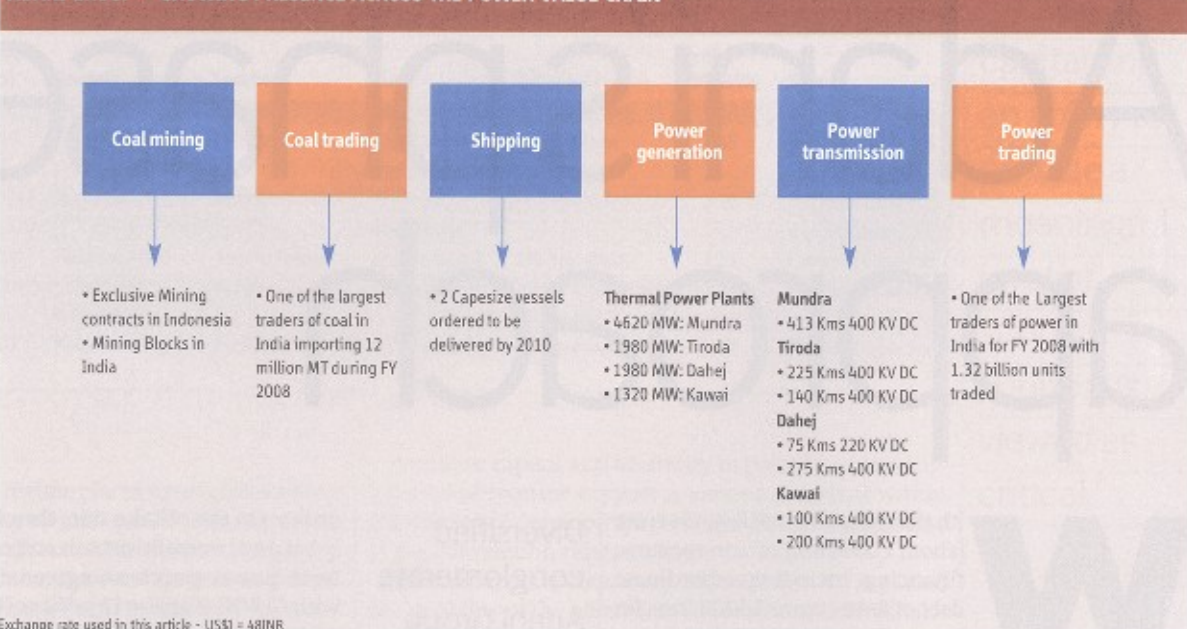
This aggressive target – trying to replicate in the next five years more than has been accomplished in the past 25 – requires some US\$270bn of investment by 2012. Several policy reforms initiated by the government in the Indian power sector, coupled with the proactive approach of various states and the central government to address power shortage problems have created a competitive and conducive atmosphere for nurturing private investments in the sector.

Adani Group with its increasing presence across the value chain is well positioned to capitalise on the immense opportunities arising in the Indian power sector.

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The total cost of the project is estimated at Rs5,796 crore, about US\$1.208m.

ADANI GROUP – GROWING PRESENCE ACROSS THE POWER VALUE CHAIN



Adani Group

Adani Group, a diversified conglomerate, has interests in various activities, including commodity trading, edible oil refining and infrastructure projects and services. Adani Enterprises Ltd (AEL), the flagship company of the group, is an international trading house dealing in nearly 70 commodities in more than 60 countries around the world. Adani Group is also the promoter and developer of the Mundra Port & Special Economic Zone (MPSEZ), which has developed state-of-the-art all-weather multipurpose port facilities at Mundra in the district of Kutch in Gujarat, and is in the process of developing, operating and maintaining a multipurpose special economic zone at Mundra adjacent to its port.

MPSEZ is also developing dedicated terminals at Mundra for importing coal for the group's power projects in Mundra and for importing the coal requirement of Tata's Mundra Ultra Mega Power Project. MPSEZ, the largest private sector port in India based on cargo volumes, and also one of the fastest growing ports, currently handles 29m tonnes of cargo and is poised to become the country's largest port, with an expected capacity of 100m tonnes of cargo by 2012.

Adani Group made its foray into the power sector through Adani Power Ltd (APL). APL is currently developing a 4,620MW thermal power project at Mundra in four phases, as the sector-specific SEZ entitles it to benefits of zero tax and duties. APL is also developing 5,280MW of power projects at different locations through SPVs (as its subsidiaries), taking the aggregate capacity of the group to 9,900MW.

The project

Mundra Phase III is a 1,320MW (2x 660MW) supercritical, imported coal based power plant at Mundra. The project is being developed to supply contracted capacity of 1,000MW to GUVNL under a PPA signed in February 2007. The surplus power from the project would be supplied to other buyers on a merchant basis through AEL's power trading arm, besides part of the power being sold to MPSEZ for industrial units to be set up in Mundra Port SEZ. The coal requirement (about 4.06m tonnes) for the Phase III project is being sourced from Adani Enterprises Ltd (AEL), the largest coal importer in India.

The project is being implemented by a fixed-price, fixed-term turnkey engineering procurement and construction (EPC) contract awarded to SEPCO III (Shandong Electric Power Construction Corporation), Shandong, China. Though the power from the proposed project would be procured by GUVNL at the power station Bus Bar, the company is also setting up a 413km double circuit 400KV transmission line, connecting to the PGCIL grid at Dehgam, for evacuating surplus power.

The total cost of the project, including setting up the 400KV transmission line, is estimated at Rs5,796 crore (about US\$1,208m) and has been financed on a debt/equity ratio of about 77:23, with the entire debt requirement of Rs4,347 crore (about US\$906m) for the project being tied up with domestic and foreign banks and institutions.

The key aspects of the power project were:

- ▶ Power offtake arrangement
- ▶ Fuel arrangement along with fuel handling arrangements (imported coal)

Adani Group made its foray into the power sector through Adani Power Ltd

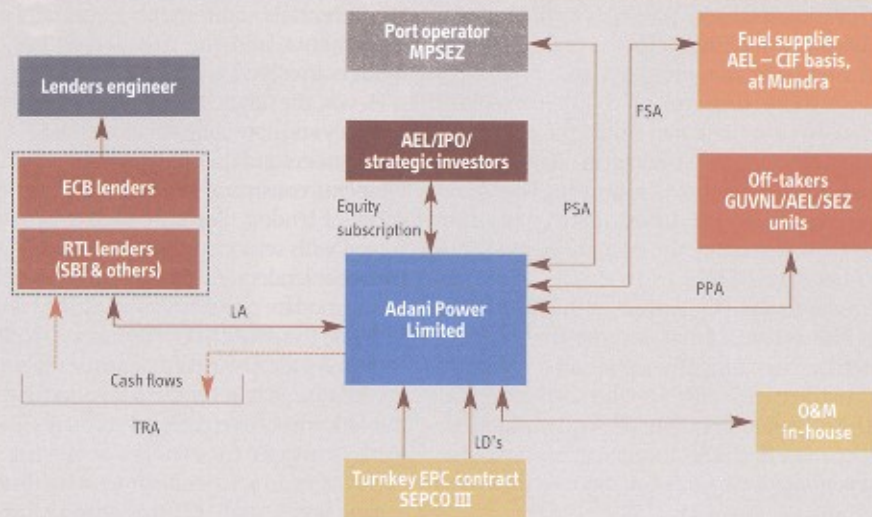
STATUS OF KEY PROJECT COMPONENTS OF COAL BASED POWER PROJECTS BEING DEVELOPED BY THE GROUP

Location	Land	Water	Fuel supply	Off take
Mundra (4620 MW)	Land in Possession	Sea Water	FSA with AEL (Backed by Mining Contracts) for imported coal	2000 MW PPA with Gujarat State Utility and for 1424 MW PPA on Net Contracted Capacity basis with Haryana
Phase I: 660 MW				
Phase II: 660 MW				
Phase III: 1320 MW				
Phase IV: 1980 MW				
Tiroda (1980 MW)	Plant Land in Possession + Additional Land with MIDC*	River Water	Coal Mine Allocated at Lohara West & Lohara Extension for 1000 MW and coal linkages	PPA with Maharashtra for 1320 MW
Dahej (1980 MW)	Applied For	Sea Water & River Water	FSA with AEL (Backed by Mining Contracts)	Long Term PPA's and Merchant Sales to be arranged
Kawai (1320 MW)	Applied For & MOU with AEL for Govt. Support	River Water	MoU signed with Rajasthan State Government for development of coal block	Long Term PPA's and Merchant Sales to be arranged

Note: *MIDC is Maharashtra Industrial Development Corporation

The PPA with GUVNL is based on the model of PPAs for similar other large projects.

PROJECT IMPLEMENTATION STRUCTURE



Note: PSA - Port Service Agreement; FSA - Fuel Supply Agreement; PPA - Power Purchase Agreement; LA - Loan Agreement; TRA - Trust and Retention Account; CIF - Cost, Insurance and Freight; LD's - Liquidated Damages

- Power evacuation
- Technology (supercritical)
- Financing arrangement (appetite of financial institutions for long tenor loans)

APL has signed a 25 year power purchase agreement (PPA II) under Case 1 with GUVNL for the sale of 1,000MW at a levelled tariff of Rs2.35 per unit from the 1,320MW project at Mundra (Phase III). The surplus power (320MW) will be sold on merchant basis at market-related tariffs through the power trading arm of AEL and part of the

power will be sold to units in the Mundra Port SEZ. The PPA with GUVNL is based on the model of PPAs for similar other large projects and provides the necessary security mechanism by way of letters of credit, a default escrow mechanism (of receivables), third-party sale in case of default, etc.

Since availability of coal for the project is a key variable, Adani Enterprises Ltd (AEL) through PT Adani Global of Indonesia has strategically acquired exclusive mining contracts for three coal mines in Indonesia. Subsequently, APL

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has entered into a 15-year long-term agreement with AEL for the supply of the required quantity of coal on a CIF basis at Mundra, thus successfully addressing the uncertainties associated with supply, pricing and transportation of fuel for the project.

AEL will take the entire responsibility for the supply of coal from Indonesia to the Mundra port, including shipping, loading at the port in Indonesia and transportation by sea to Mundra through Adani Shipping PTE of Singapore. APL has also made arrangements for coal unloading, handling and transportation to the plant site with MPSEZ.

Coal and its transportation usually account for a significant proportion of the operating costs of coal based thermal power plants. Adani Group, with its presence across the value chain, is strategically well placed to harvest group synergies while addressing risks and concerns associated with power projects.

Availability of transmission facilities is the key for success in the supply of power on a merchant basis. As per the PPA with GUVNL, the power would be procured by GUVNL from the Bus Bar at the plant site at Mundra. However, the company has proposed to build a dedicated 413km double circuit 400kV transmission line connecting to the PGCIL Grid at Dehgam, Gandhinagar for the evacuation and supply of surplus power on a merchant basis.

Also, considering the scenario of the transmission constraints faced on inter-regional links, the proposed transmission line would act as a backup facility for evacuating large volumes of power, if required. The same would also help the company in mitigating any risk that may arise if GUVNL reduces the procurement of contracted power under the PPA.

APL had entered into an EPC contract with SEPCO III of China through the international competitive bidding route. Subsequently, the company stationed a technical team at the manufacturer's site in China so as to get involved with the manufacturer over the entire manufacturing stage and enable effective communication of requirements and achievement of envisaged quality specifications.

Financing arrangements

SBI Cap had approached various Indian and overseas banks and institutional lenders for syndication of debt for the Phase III project. The project cost, estimated at Rs5,796 crore (about US\$1,208m) was proposed to be funded with a debt/equity ratio of about 77:23, with the total debt requirement of Rs4,347 crore (US\$906m) including subordinate debt requirement of Rs107 crore (US\$ 22.3m).

The financing plan consisted of:

- ▶ Domestic currency financing (both senior debt and subordinated debt) provided by Indian banks and institutional lenders through fund-based lending and letters of credit;
- ▶ Non-rupee financing through direct loans and letters of credit from foreign banks; and
- ▶ An equity contribution by Adani Power.

Adani Power obtained a private equity injection of Rs900 crore (about US\$187.5m) from 3i Power Investments A1 Ltd to meet the equity requirements of the company.

The financing structure

The financing of a project of this magnitude had to grapple with various challenges related to regulatory restrictions and a continuously tightening domestic and global liquidity scenario. Some of the major challenges faced with respect to this project finance transaction are as follows:

▶ Exposure norms: Domestic banks have to comply with various exposure norms stipulated by the Reserve Bank of India.

▶ ECB guidelines: Then prevalent external commercial borrowing regulations permitted ECB of more than US\$20m for foreign currency expenditure only. Also, the all-in-cost ceiling was only 250bp over six-month Libor applicable for more than five years maturity.

▶ Difference in the risk appetite of institutional lenders and banks.

▶ A continuously increasing interest rate atmosphere due to severe tightening of domestic and global liquidity.

▶ Differential requirements, especially environmental requirements, and the risk perception of various stakeholders involved with the project.

Hence, the financing plan and terms and conditions were carefully and optimally structured by SBI Cap in consultation with lenders and the company to tackle all these issues. The financing consists of separate tranches of debt for each category of lenders. Separate facility agreements have been signed with senior rupee term loan (RTL) lenders, subordinate debt lenders and foreign currency debt (ECB) lenders to accommodate peculiarities associated with each tranche.

While the door-to-door tenure of 14.25 years is the same for the senior rupee term loan and subordinate debt, they are structured differently so as to address the relative maturity concerns of the participating banks. The ECB repayments were structured for a door-to-door tenure of 12.25 years.

However, in spite of having such a diverse set of lenders, entire terms and security stipulations were identical, except for some financing terms such as interest rate and tenure. Furthermore, except for respective facility agreements that only cover financing terms, all other financing documents were common for the entire set of lenders.

Specific features of the financing are:

- ▶ One of the significantly large syndicated project finance deals in India.
- ▶ Broad based lender's participation, including domestic banks, domestic institutional lenders and foreign banks.
- ▶ Flexibility to refinance on annual reset dates without penalty post-COD to reduce interest rate risk after construction risk is over.
- ▶ Interest rate for rupee loan is floating with State Bank advance rate/respective banks PLRs as the benchmark rates.