

# Asia-Pacific Refinancing Deal of the Year 2011: Sasan UMPP

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In the face of dollar liquidity constraints and the reluctance of foreign commercial banks to lend to Indian power plant projects, Indias largest private power developer, Reliance Power, managed to achieve a rare feat by tapping \$1.914 billion of dollar- denominated financing for the Sasan power project, which included loans from three commercial banks.

The original financing for the \$4.6 billion 4GW ultra mega power project (UMPP) closed in 2009 and involved \$3.2 billion equivalent in rupee debt financing from 14 Indian banks, as well as the India Infrastructure Finance Company. The sponsor optimised the financing for the project by replacing undrawn commitments from existing lenders with dollar financing from export credit agencies and relationship banks.

The 13-year loan set a number of precedents. It was the first Indian mining or power project to win a direct loan from US Ex-Im, which provided \$650 million. Sasan was also the recipient of \$1.1 billion in coverage from Sinosure the first time the Chinese ECA has covered a loan to an Indian power project. The Sasan refinancing is also the first time a UMPP has accessed the external currency borrowing market, indicating that Indian lenders with other UMPP exposures will be able to recycle their commitments.

International commercial banks have largely kept their distance from greenfield Indian power deals, especially those with tenors over 10 years. But Standard Chartered, DBS Bank and Mizuho Bank participated in a \$150 million Libor-linked commercial facility, which included both step-ups and subsequent step-downs. Although the size of the commercial loan was lower than the \$300 million anticipated earlier in the deal process, which had been expected to attract five or six international lenders, closing any international commercial debt was an achievement.

A few factors with the potential to reduce lender comfort had to be addressed before the closing of both deals. Sasan had concluded 25-year power purchase agreements with fourteen utilities in seven states resulting in an unusually burdensome offtake due diligence process on the part of lenders.

But the economies of scale of the 4GW plant, as well as the development of the neighbouring coal mine, proved to be critical factors in assuaging any lender doubts. The 20 million metric tonnes-per- year coal mine resulted in negligible fuel transportation costs and a highly competitive tariff. Lenders were reassured that the offtake price would be below spot prices for the vast majority of the year, despite the effect of fluctuating seasonal demand.

Negative sentiment towards Chinese equipment also needed to be overcome during the due diligence process, and has proven a key stumbling block in the past for Indian projects seeking international sources of financing. The growing reputation of the Shanghai Electric Group, which signed an \$8.2 billion deal with Reliance Power in October 2010 to supply boiler and turbine generators, helped minimise these worries. The sponsor in turn signed a memorandum of understanding with Bank of China, China Development Bank, Export-Import Bank of China and Industrial and Commercial Bank of China to lend \$12 billion to Reliances upcoming slate of projects, including Sasan.

The deal was closed at a time when activity in the Indian power market had reached an apparent high water mark. Analysts have questioned whether all but the largest new power projects will be able to command exceptionally high

profits as Indias power deficit narrows. But increased lender comfort with Indian IPPs means that sponsors will look to optimise their debt mix for years to come.

**Sasan Power**

STATUS: Closed 30 September 2011

SIZE: \$4.6 billion

DESCRIPTION: Refinancing of undrawn rupee commitments to 4,000MW coal-fired plant in Madhya Pradesh, India, with dollar debt from offshore lenders.

TOTAL DEBT: \$3.2 billion (of which \$1.914 billion was refinanced)

LEAD ARRANGERS: DBS Bank; Mizuho Corporate Bank; Standard Chartered Bank; Bank of China; China Development Bank Corporation; Export Import Bank of China; Export-Import Bank of the United States

EPC CONTRACTOR: Reliance Infrastructure

LENDER LEGAL COUNSEL: Clifford Chance (Offshore lenders); Luthra and Luthra (India)

SPONSOR LEGAL COUNSEL: Hunton & Williams

SINOSURE LEGAL ADVISER: Allen & Overy

INSURANCE ADVISER: Marsh

INDEPENDENT ENGINEERS: Lahmeyer (power), Marston & Marston (mining)

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