Asia-Pacific Mining & Metals Deal of the Year 2013: Tata Odisha

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The Rs228 billion ($3.65 billion) financing for Tata Steels Rs430 billion greenfield steel plant in Odisha is comfortably the largest ever financing in Indias mining and metals sector. It is probably the largest all-bank project financing ever in India, which regularly boasts the largest project financing volumes anywhere. Only Reliances $4 billion financing for its Jamnagar financing, which closed in 2006, and boasted a $2 billion export credit agency tranche, is larger.

On the Odisha financing, Tata and its lead arranger State Bank of India not only had to maximise their take from Indias domestic bank market, but try and stretch the tenors and terms on offer in that market. At a time of looming weakness in the economies of India and other emerging markets Tata Odisha both the project and its financing is a bold bet on continued growth in India.

Tata Steel signed a memorandum of understanding with the government of India for the project in 2004, ten years after the government set up an industrial zone in Kalinganagar, in Odishas Jajpur district. The plant is Tatas first greenfield steel development outside of its base in Jamshedpur, though it has been acquisitive outside India since 2005.

The Kalinganagar plant will have a capacity of 6 million tonnes per year, and be split into two modules. The project includes a coke oven battery, a sinter and pellet plant, a blast furnace, steel melting shop, hot strip mill, pickling line tandem cold rolling mill and a captive power plant. The plant is designed to produce the high-grade steel products that India still imports.

The debt package is split into two tranches to mirror the twin-module project configuration. Each module is the same size, and each uses basic oxygen technology, but splitting the plant into two allows for staggered draws and staggered repayment schedules, with each tranche repaid and amortising according to projected cashflows from its module.

The financing is also structured to accommodate a four-year construction period, with a 12-year tenor door-to-door. The tenor is longer than is typical in the Indian market, though the financing is still structured to allow for a partial refinancing with foreign currency.

SBI tried to sell down the debt during a period when higher inflation and pressure on the rupees value made it likely that the Reserve Bank of India, Indias central bank, would have to tighten liquidity. Since then, the RBIs repo rate has risen from 7.25% to 8%.

The debt for the Kalinganagar plant is fully floating, and linked to SBIs base rate, and the margin changes according to the projects external rating. The last feature is a first for the Indian market, and, given the increasing importance that ratings agencies have in rating bank debt, is likely to be influential.

Tata Steel Odisha Limited

Status

Closed 22 May 2013

Size

Rs430 billion

Description

6 million tonnes-per-year steel plant located in Kalinganagar, Jajpur district, in Indias Odisha state

Sponsor

Tata Steel

Equity

Rs202 billion

Debt

Rs228 billion

Mandated lead arrangers

State Bank of India (facility agent); Axis Bank,

HDFC Bank, ICICI Bank, Punjab National Bank

Participants

Allahabad Bank; Canara Bank; Central Bank of India; Corporation Bank; Export-Import Bank of India; Federal Bank; Indian Bank; Jammu & Kashmir Bank; Oriental Bank of Commerce; Punjab & Sind Bank; State Bank of Bikaner & Jaipur; State Bank of Hyderabad; State Bank of Mysore; State Bank of Patiala;

State Bank of Travancore; Syndicate Bank

Financial adviser

SBI Capital

Sponsors legal adviser

AZB & Partners

Lenders legal adviser

Amarchand & Mangaldas & Suresh A Shroff

Technical consultant
Dastur

The financing attracted a mixture of public and private banks as lenders. Joining SBI as lead arrangers were Axis Bank, HDFC Bank, ICICI Bank, and Punjab National Bank. Another 16 banks participated: Allahabad Bank; Canara Bank; Central Bank of India; Corporation Bank; Export-Import Bank of India; Federal Bank; Indian Bank; Jammu & Kashmir Bank; Oriental Bank of Commerce; Punjab & Sind Bank; State Bank of Bikaner & Jaipur; State Bank of Hyderabad; State Bank of Mysore; State Bank of Patiala; State Bank of Travancore; and Syndicate Bank

The financing closed despite widely-publicised restrictions on mining in several states, including Karnataka and Goa. Indias supreme court has since lifted some restrictions on domestic mining, but the slump in domestic production has depressed domestic production and led to higher ore prices. Tatas name and projected robust demand for flat steel products were key to bringing the deal to financial close.