

HIGHLY COMMENDED WINNER

Best Trade Solution

SE Solar Limited

India

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LCs with a difference

Company profile

CLP India, one of the largest foreign investors in the Indian power sector, along with their EPC contractor, which is one of the leading renewable energy solutions providers in the world, have a joint venture called SE Solar Limited. SE Solar houses a 100 MW solar project at Veltoor in Telangana.

The challenge

SE Solar was in the process of setting up a solar power plant through its engineering, procurement and construction (EPC) contractor. The EPC contractor, being in a financially weak state, did not have bank facilities to issue letters of credit (LC) to offshore suppliers for procurement of capital goods (solar panels and trackers).

The commercial terms agreed between SE Solar and the EPC contractor were different from the terms agreed between the EPC contractor and the offshore supplier for the underlying currency and payment tenor.

The solution

SE Solar developed an innovative transferable LC structure with Deutsche Bank India (DB) to enable onward procurement of capital equipment (solar panels and trackers) by the EPC contractor.

DB issued transferable LCs (amount INR1.5bn) on behalf of SE Solar, favouring the EPC contractor in INR for a longer tenor (three years). DB then transferred the LCs at the request of the EPC contractor to the offshore suppliers in USD for a shorter tenor (150 days) to enable the EPC contractor to procure capital goods from the offshore suppliers under the transferred credit.

The currency risk under the transferred LC was fully hedged through a matching forward contract. The payment of the transferred LC was done by discounting the original/parent LC on the 150th or due date of the transferred credit, utilising the forward contract book. The structure was turned around within stringent timelines, considering the regulatory and commercial framework within which both counterparties were operating.

This helped SE Solar to meet its business requirements of different commercial terms, in terms of underlying currency and payment tenor between SE Solar and the EPC contractor, as compared to terms agreed between the EPC contractor and offshore supplier. At the same time, it averted any delays on the project completion timelines which had commercial implications on the profitability and cost of the project.

Best practice and innovation

Given that bank limits constrained the EPC contractor, it would have been time-consuming and difficult to convert through the conventional banking channel. This was a highly customised trade solution, built in close coordination with DB, SE Solar and the EPC contractor to ensure the business requirements of the underlying project were met in a time-efficient manner, enabling business continuity.

The fact that the solution allowed for a difference in the tenor and currency of the parent and transferred LCs as per business and commercial requirements ensured that there was no credit or operational risk on the EPC contractor from the bank's perspective.

What's more, the three-year credit period taken by SE Solar allowed it enough time to tie up project financing, while the EPC contractor received cash through discounting of the LC. Also, the booking of a forward contract mitigated the risk arising from the difference in currencies: the parent LC was in INR, as per local regulations, and the transferred LC was in USD, as required by the supplier.

Key benefits

The benefits of the structure are:

- **Innovative:** transferable LCs were issued with a difference in tenor and currency between the original and transferred credit, allowing different commercial terms agreed between SE Solar and the EPC contractor, and the EPC contractor and the offshore suppliers.
- **Capital efficient:** no credit limits were marked on the EPC contractor. The LC was transferred on request from the EPC contractor. All terms in the LC were matched. The currency mismatch was taken care of through a matching forward contract.
- **Efficiency improvements:** the structure helped SE Solar complete the project on time as the EPC contractor could get the LCs issued to the final supplier for procurement of capex, thus avoiding commercial implications arising from any project delays.
- **Cost savings:** this helped in the assessment of the risk of the counterparty, as SE Solar has a much better credit profile as the facilities were supported by CLP India. These efficiencies improved the risk weighting on the assets disbursed, and thus helped SE Solar get a better pricing on the overall LC.
- **Buyer acceptances in lieu of bank debt:** SE Solar could maintain a higher tenor under the main LC, which helped it avoid raising debt immediately for the payment of LCs: the EPC contractor got paid through discounting of the LC instead.