Having State Bank Carmichael coal exposure?

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State Bank of India (SBI) is facing redemptions/maturities of USD 3.85bn of hard currency bonds and loans in the next 14 months. This constitutes ~50% of the bank’s hard currency debt. SBI is also looking to potentially lend USD650mn to the Carmichael coal project in the near future.

**AFII view:** Refinancing of the upcoming maturities will potentially generate funds to be on-lent to the Carmichael coal mine development. This should exclude some financial institutions’ participation.

HSCB and MUFG (Mitsubishi Financial Group) signed on as general corporate purpose lenders for the two USD750mn SBI loans in January and July 2018, see Figure 1 below. HSBC and MUFG were in the syndicate for the green bond SBI 4.5% 2023 (USD650mn, XS1856795510) that was issued in September 2018.¹

**AFII view:** Banks can provide general corporate funding/loans to an issuer in order to increase the probability of winning a later green bond mandate with associated fees/league table. Following the view expressed above: loans being advanced in order to win the SBI 2018 green bond mandate could have a direct link to Carmichael funding. Furthermore, they could also jeopardize or overwhelm the inherent value and credibility of the green bond itself (further comment below).

SBI green bond syndicate leads HSCB and MUFG has so far and to our knowledge made any public statements or engaged to dissuade State Bank of India from the Carmichael coal loan, in contrast to other stakeholders such as BlackRock, Amundi, Storebrand and others.²

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**Figure 1. State Bank of India hard currency loans (<18M maturity) and select large bank loan providers. Source: Bloomberg.**

<table>
<thead>
<tr>
<th>Maturity</th>
<th>Signing date</th>
<th>Global bank</th>
<th>Amount USDmn</th>
<th>Lenders</th>
</tr>
</thead>
<tbody>
<tr>
<td>17-Dec-2020</td>
<td>17-Dec-2015</td>
<td>StanChart</td>
<td>500</td>
<td>MUFG</td>
</tr>
<tr>
<td>29-Dec-2020</td>
<td>29-Jan-2016</td>
<td>None</td>
<td>150 (1st lien)</td>
<td>MUFG</td>
</tr>
<tr>
<td>24-Jan-2021</td>
<td>24-Jan-2018</td>
<td>HSBC</td>
<td>750</td>
<td>HSBC</td>
</tr>
<tr>
<td>13-Jul-2021</td>
<td>13-Jul-2018</td>
<td>HSBC</td>
<td>750</td>
<td>HSBC</td>
</tr>
<tr>
<td>21-Oct-2021</td>
<td>10-Aug-2016</td>
<td>ANZ</td>
<td>500</td>
<td>ANZ</td>
</tr>
</tbody>
</table>

¹ For a discussion on that bond see “How green bond markets are (not) supposed to work”, 25 Nov 2020.

² SBI has suffered from critique from various asset managers and -owners over the past few weeks, c.f. “Blackrock, Storebrand Pressure Indian Bank Over Coal Mining Loan”, Bloomberg Green, 4 Dec 2020, or “Amundi threatens to divest State Bank of India’s green bonds over coal project”, Environmental Finance, 27 Nov 2020, or “Should SBI Green Bond Investors be Suspicious?”, NordSIP, 20 Nov 2020. AFII sources on engagement available on request: note that investor meetings need to be registered with the stock exchange.
AFII views

1/ Syndicate banks’ parallel and/or conditional general purpose lending should be weighed in by end investors when considering investing in a green bond

Would the green bond even have happened unless there had been other lending going on? End investors could claim there is a linkage between the provisioning of green funding and the non-green funding, and thus you would have to weigh in the damaging effects of the non-green funding into the green bond. Effectively, one could argue that the green bond enabled other non-green, potentially more climate negative lending. This is a justified critique, that in our experience of managing end investors’ money, no wriggling around “ring-fencing” of green bond assets would get you out of.

In the case of SBI, we know that some potential non-green funding is much more carbon intensive (Carmichael 30Mtpa CO2e de minimis) than the carbon saving achieved through the green projects (1.6Mtpa CO2e). Thus, it looks unfortunate that the green bond deal in 2018 was syndicated by banks (e.g. HSBC and MUFG) that had partaken in non-green loan facilities of more than 2x the size of the green bond in the prior months. We have no information pertaining to whether the parallel lending was disclosed at the time of marketing/reviewing the green bond or not.

2/ Maturity walls provide great leverage points for engaged investors.

Posit that investors engage with State Bank of India making it clear that future hard currency funding may not materialize because the investors would not be able to disprove Hypothesis I above. Explicitly, institutions that are committed to not finance new coal mines may not be able not advance funds to SBI in order for SBI to on-lend to a new coal mine.

But SBI needs to repay its current USD loans to firms like HSBC and MUFG. Investors could simply conditionalize any new refinancing on the Carmichael loan not happening. We note that this would be an inexpensive way for investors to potentially have an outsized positive climate impact, a.k.a. “ESG low hanging fruit.” We opine that that fruit is ripe for picking, also for banks like HSBC and MUFG.

Earlier AFII analysis on SBI and Carmichael:

“How green bond markets are (not) supposed to work.”, Nov 2020. Link
“SBI (potential) Carmichael loan: Key financing transaction parties”, Nov 2020. Link
“Global investors and the Carmichael mega-mine”, Sep 2020. Link

For avoidance of doubt, also note that green bond documentation “ring-fencing” is trumped by the pari passu status of the bonds. The core of credit bond trading is about default/bankruptcy exposure. In case of bankruptcy, the SBI green bonds are not ring-fenced but are as liable as all other senior unsecured funding to share write-downs. In extremis: if SBI were to default due to having lent money to Carmichael, green bond investors would be liable to take economic losses for the Carmichael loan.

The Institute for Energy Economics and Financial Analysis (IEEFA) keeps an excellent tally of financial institutions’ commitments to not fund new coal projects, see this link.

There are also benefits in terms of strengthening the green bond market, c.f. “An open letter to HSBC: You owe it to the green bond market to engage with SBI over Carmichael”, Responsible Investor, 2 Dec 2020.
General articles

“Private equity investment engagement and carbon foot-printing: A real-time case study.”, Dec 2020. [Link]
“How green bond markets are (not) supposed to work.”, Nov 2020. [Link]
“SBI (potential) Carmichael loan: Key financing transaction parties”, Nov 2020. [Link]
“Your AMs/PMs want to buy new Saudi Aramco bonds? Have them consider alternatives”, Nov 2020. [Link]
“The ECB and Alberta’s oil production tax holiday”, Oct 2020. [Link]
“Reef Credit: An Indulgence”, Oct 2020. [Link]
“Dalrymple of Queensland and the Mighty Greenwash”, Sep 2020. [Link]
“Global investors and the Carmichael mega-mine”, Sep 2020. [Link]
“Hard coal auction”, Aug 2020. [Link]
“Top coal, top ESG?”, Aug 2020. [Link]

Academic/technical papers

“Credit alpha and CO2 reduction: A portfolio manager approach”, SSRN working paper, May 2017. [Link]
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