

State Bank of India + Coal Mega-Mine? Not so fast please.

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According to media reports,¹ State Bank of India (bond ticker SBI) is nearing an agreement to lend Rs 5,000 crore (~USD650m) to Adani Enterprises as fresh funding for the Carmichael coal mine. We have commented on the Carmichael project before, see “[Global investors and the Carmichael mega-mine](#)”, 1 Sep 2020, but to lend the words of the Rolling Stone magazine it is “[the most insane energy project of the world.](#)” Recent press stories indicate that the project is looking to ramp up production over time to 50Mtpa,² which cumulatively could lead to CO2 emissions of several gigatonnes (billions tonnes).

The AFII questions the economic and environmental logic in providing credit to Carmichael. In February, the German engineering group Siemens (SIEGR) drew the ire from both climate activists as well as asset manager BlackRock (BLK) for their provisioning of \$18mn railway signaling to Carmichael.³ **Providing \$650mn of funding – like SBI is intending to do - is much more potent in terms of enabling Carmichael than what Siemens did, in AFII’s opinion.** Consequently, we would like to highlight the following investor exposures/engagement opportunities:

SBI has USD>2.8bn outstanding in hard currency benchmark bond deals. We believe key bond investors/lenders of USD such as Athene, Jupiter Fund Management, TIAA, Allianz and BlackRock should engage with SBI if they perceive fresh onward lending of their invested money to the development of new thermal coal mines to be against their respective investment policies.

One of the USD benchmark deals, the SBI 4.5% 09/2023 bond is a “green” bond. We opine that an execution of funding to Carmichael effectively removes all green credentials of this bond, aka. **greenwash**, on the back of the issuer not exhibiting an actual dedication to climate change mitigation. We believe they (and their end investors in the asset management cases) would be well served if SBI eventually decides to not provide Carmichael lending. Key investor is Credit Agricole/Amundi. We would consider a requalification of the bond as ‘green’ if the Carmichael program is withdrawn.

Further balance sheet exposure to SBI sits with development banks such as the World Bank, the European Investment Bank (EIB) and Kreditanstalt für Wiederaufbau (KfW). We opine that loans – even to renewables’ activities - to SBI are providing balance sheet relief that enables SBI to execute potential Carmichael lending.

¹ See, for example, “[SBI set to offer Rs 5000 cr loan to Adani coal project in Australia](#)”, Business Standard, 17 Nov 2020.

² “[Documents suggest Adani retained long-term plan to build Australia’s biggest mine](#)”, The Guardian, 11 Nov 2020.

³ “[BlackRock rebukes Siemens on its environmental record](#)”, Financial Times, 6 Feb 2020.

Overview – SBI USD bond curve

Figure 1. USD bonds outstanding from SBI >\$200mn. Greenwashed bond highlighted. Source: Bloomberg.

| ISIN | Alt ISIN (REGS) | Coupon | Maturity | Announce | Amount (mn) |
|--------------|-----------------|--------|------------|------------|-------------|
| XS1551709568 | | 3.25 | 2022-01-24 | 2017-01-17 | 850 |
| US85628UAJ51 | USY81647AE24 | 4.375 | 2024-01-24 | 2019-01-16 | 850 |
| XS1856795510 | | 4.5 | 2023-09-28 | 2018-09-19 | 650 |
| US85628UAF30 | USY81647AB84 | 4.875 | 2024-04-17 | 2014-04-10 | 500 |
| US85628UAH95 | USY81647AD41 | 4 | 2022-01-24 | 2019-01-16 | 400 |
| XS1492713505 | | 5.5 | Perp | 2016-09-14 | 300 |

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“The Green Bond Risk Premium: A Twin-Bond ULFP Approach”, SSRN working paper, Jul 2020. [Link](#).

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

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