



FA-1/225/2018-KIIFB

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## PRESS RELEASE

Kerala Infrastructure Investment Fund Board (KIIFB) has recently concluded its debut international issue by closing its INR 2,150 crore Masala Bond issue. This was a landmark transaction as this is not just the 1st offshore capital market issuance from a State level entity from India ever, but also the largest dual currency issue by a State Government agency from the entire Emerging Markets and Asia.

The transaction saw strong participation from a wide spectrum of investors which included Asset Managers, Insurance Companies, Pension Funds, Banks as well as Private Wealth Managers. The issue is dual listed on the London Stock Exchange and Singapore Stock Exchange.

A view has been circulated in the media which portrays this historic achievement in an adverse light. The argument centres around two issues viz.

**1. One of the main investors in the Masala Bond is CDPQ which has also invested in SNC-Lavalin, which made an investment in India that is currently a subject matter of litigation.**

CDPQ is a long-term institutional investor which manages funds primarily for public and parapublic pension funds and insurance programmes, and has its headquarters in Quebec, Canada. As at December 31, 2018, it held \$220 billion US (INR 15.40 lakh crore) in net assets, which are composed of several thousand investments globally in more than 60 countries. CDPQ has offices in 10 countries, including one in India (New Delhi).

Public sources show that CDPQ has made investments of 4.5 billion US Dollars (approximately Rs.31,500 crore) in India, in companies such as Edelweiss, Kotak Bank, TVS Logistics and Azure Power. Around the world, it has invested in high-quality assets such as Heathrow airport in the UK, Port of Brisbane in Australia, Stuyvesant Town/Peter Cooper Village, a residential complex in New York City, and multinationals like Nestlé, just to name a few. In Quebec alone, the province of Canada where CDPQ is headquartered, it has investments in close to 775 companies, including Bombardier, CGI, SNC Lavalin, and other well-known Canadian companies active in world markets.

Hence it would be categorically false and not based on facts to connect in any way CDPQ's investment in SNC Lavalin or any of the several thousand investments of CDPQ around the world to the Masala Bond Deal of KIIFB.

**2. The rate of interest at which KIIFB has borrowed funds is excessive**

The KIIFB Masala Bond has been issued at 9.723% rate of interest. KIIFB is the only State Level institution that has borrowed from the Masala Bond Market with the approval of the Reserve Bank of India. To understand the reasonableness of the rates it is necessary

to evaluate the interest rates in which such issues have been made in both the international market and the domestic market in India.

As regards the international market, so far only institutions which are rated at AAA by rating agencies have entered the Masala Bond Market. This is the first time that an entity like KIIFB with a rating of BB, below the rating of the Central Government at BBB- had attempted a bond of this nature. In the Masala Bond Market, investors evaluate three kinds of risks viz. (1) Liquidity Risk (the ease at which the bonds can be sold in the market. (2) Currency Risk (the risk arising from fluctuations in the foreign exchange rate) (3) Credit Risk. All these risks are analysed before an investor makes the investment. Even for a AAA rated agency, the investors in the Masala Bond market bid for rates which range from 1.25-1.75% over the Securities issued by Government of India. Considering these risks in the market, KIIFB with a BB rating has been able to obtain the best possible rate in the Masala Market when viewed against rates obtained by other institutions with a much superior AAA rating.

To evaluate the reasonableness of the KIIFB Masala Bond rate it is also necessary to look at similar bond issues in the Indian Market. The bonds issuances in the Indian Domestic Market for a tenor over one year was analysed in depth. In comparison to KIIFB's Masala Bond rate of 9.723%, the rates obtained by bond issuers rated similar to KIIFB in the domestic market for the last one year are significantly higher. The lowest rate at which an A+ rated entity has been able to raise fund in domestic market has been at 9.87% and that too for a 3-year bond with an issue size of just INR 37.5 crore.

A Government entity like the Andhra Pradesh Capital Region Development Authority (APCRDA) which is a Government Body like KIIFB has raised funds in the domestic market at 10.32% (payable quarterly). Rates at which other institutions banks like Central Bank (10.8%), IOB (11.7%) and South Indian bank (11.75%) have raised funds during the period are much higher.

It can therefore be seen that the rates at which KIIFB has raised funds are much lower than what any institution like KIIFB has raised in the domestic market over the last one year.