

IL&FS Financial Services raises \$30 mn via masala loan

BY SWARAJ SINGH DHANJAL

swaraj.d@livemint.com

MUMBAI

IL&FS Financial Services Ltd, the financial arm of IL&FS Group, has raised \$30 million from Mauritius-based AfrAsia Bank Ltd and SBM (Mauritius) Bank Ltd through a rupee denominated or masala loan, a senior executive of the firm said.

"The masala loan enables us to eliminate currency risk entirely, and deploy funding directly into various infrastructure projects without having to convert foreign capital into local currency," said Ramesh C. Bawa, managing director and chief executive officer of IL&FS Financial Services.

Bawa said IL&FS Financial Services is the first non-banking financial company (NBFC) to raise such a rupee-denominated loan from foreign banks.

The masala loan will be utilized for lending to other corporates, including the infrastructure sector. It has a tenure of three years with an interest rate of around 8.65-8.7%, Bawa said, adding that the loan will be repaid

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altogether at the end of the tenure in a so-called bullet repayment.

Masala loans will complement domestic banks' efforts to fund infrastructure projects in India and help in diversification of borrowings, said Bawa. "Favourable global liquidity conditions, coupled with a strong demand for Indian credit, are encouraging companies to raise capital from overseas markets for the infrastructure sector," he said.

The latest masala loan transaction follows a similar loan raised by the group's road entity IL&FS Transportation Networks Ltd (ITNL) last year.

In November, ITNL raised a Rs340-crore rupee-denominated loan from international financial institution Export Development Canada (EDC).

EDC is the export credit agency of Canada, which helps its exporters enter new markets. The loan from EDC was meant for refinancing the existing debt of some of ITNL's infrastructure projects, as well as to support fresh infrastructure projects.

Bawa added that the IL&FS group is also considering masala loan transactions for other group entities as it is seeing strong inbound interest from overseas financial institutions.

"We are exploring the possibility of doing similar transactions for other group entities also. We are being approached by other foreign banks, too, so we think we will be able to do more such transactions," he said, adding that the group is also exploring raising funds by selling masala bonds.

According to Bawa, while there is enough liquidity in off-shore markets, lenders are cautious while dealing in rupee-denominated loans.

"Liquidity is not a problem; but in these masala loans, all the overseas institutions are choosy. Unless they are comfortable with the background of the promoter, strength of the balance sheets they don't work," said Bawa.