SE Opinion

HD **Capitalism or crony capitalism: Adani, Modi, GVK, and the Galilee basin**

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New Delhi, Nov. 20 -- State Bank of India's (SBI's) $1 billion line of credit to Adani Group for a controversial Australian project can be seen as one of three things: a state-owned bank lending to an Indian company's project to sort of cut the symbolic ribbon on a big project during the Indian Prime Minister's much-publicized visit to Australia; a close friend of Prime Minister Narendra Modi, Gautam Adani, being granted a loan by a state-owned bank; or a state-owned bank that has made such sensible decisions as bailing out Kingfisher Airlines Ltd once through a sweetheart deal, issuing a line of credit to a company for which it has always been one of the two primary bankers (Standard Chartered Plc is the other). Various commentators have been quick to pick the second option, but there is no evidence to the effect. Nor is there any proof of the first.

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As for the third, all we have on offer is SBI's track record with possible digressions into the control the government exerts on top appointments in banks and, possibly, their loan books and the issue (which some consider to be a related one) of most state-owned banks in India having roughly five times as much bad loans as private ones. All three are within the realm of the plausible and the possible, but credible journalism isn't about assigning probabilities to unproven hypotheses. And that's about as much as can be said about the matter at this point because it is unlikely that the finance ministry (which effectively controls SBI), Modi, Adani, or SBI will own up if any pressure was indeed brought to bear on the bank to issue a line of credit to Adani. Before we get down to the project itself, it might make sense to review some numbers. At a group level, Adani has around $12 billion of debt. Its market value is $20 billion. Very few shares in the three listed companies of the group are pledged with anyone. The project for which the line of credit has been given is estimated to cost $15 billion, maybe more. The group has not had to restructure its debt and its interest coverage ratio is more than 1 (which means it generates enough cash to pay interest). If those (and the group's past association with the bank) were all that mattered, SBI can easily justify the line of credit. To be sure, the group financial details are not relevant unless the Australia project is structured in such a way that it has recourse to the parent's balance sheet. The real test for crony capitalism is whether the pricing of the loan is out of sync with risk. Nobody has any information about this. The Kingfisher case was suspicious because the banks converted their debt into equity at a hefty premium to the market price. There is no evidence of a sweetheart deal in the case of Adani, as of now. The bank has also clarified that the line of credit is just that, a line, and that the loan is contingent on its evaluation of the project. Which brings us to the project itself. Ignoring everything else, Adani's Australian coal project will produce an estimated 60 million tonnes (mt) of coal a year. That is coal which India desperately needs. By the Indian government's estimates, the country will be short of some 185-265 mt of coal by 2016-17, a year ahead of the ambitious deadline set by Adani for shipping coal to India. Almost 70% of the power generated in India is from coal. That, though, is a simplistic analysis of the controversial project, which some critics say is expected to wreak significant damage on the Australian environment and especially on the Great Barrier Reef (in an attempt to raise money for the project, Adani has been trying to sell a stake in the Abbot Point port that will actually ship the coal). Still, Australia has seen it fit to grant environmental approvals to the project and that is where it ends. Any real analysis of the project needs to factor in the price of coal-it has come down significantly to a four-year low as the commodity super-cycle ends, but it could rise again-Adani's ability to raise money for the entire project (extremely difficult, although not impossible), and India's own effort to de-nationalize coal mining (only a matter of time, people in the know say, and the government has already retained the option to do so in a new ordinance it has put in place) and make state-owned miner Coal India Ltd more efficient. "In two or three years, we should be able to stop imports of thermal coal," India's coal minister Piyush Goyal told a conference, Reuters reported on 13 November. Given all that, Adani's Australian **coal** project-it is controlled by two Australian subsidiaries, wholly owned by a Singapore subsidiary, in turn, wholly owned by a Mauritius subsidiary, which is wholly owned by Adani Enterprises Ltd, the group's flagship **firm**-is complex, one reason why the conglomerate, and another Indian conglomerate with interests in the Galilee **mining** belt, GVK, have run into trouble with funding. GVK's project is estimated to cost around $10 **billion** and it isn't clear whether the conglomerate will find a white knight, much like Adani found one in SBI. There is, of course, another theory doing the rounds-that Modi is replicating **China**'s strategy of securing **energy** to fuel growth. Even in Gujarat, he used state utilities such as GSPC (Gujarat State Petroleum Corp. Ltd) to bid for **energy** assets. He could well be trying to follow this approach at the national level, but the only difference could be that he is trying to get the private sector to do the job. If that's the case, GVK can breathe easy. And if that's the case, both the private enterprises involved, and the fuel-starved nation will benefit-which is not really crony capitalism, but the essence of capitalism itself.

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