



# Derivative-Based Products

## *Risk Management Products* *Rupiah / Dollar Currency Swap*

### HIGHLIGHTS

- Indonesian company needed long-term dollar financing, but borrowed rupiah locally where it had a comparative advantage
- To match its dollar revenues, the company entered into a currency swap with IFC
- Combination of rupiah borrowing and currency swap resulted in synthetic dollar financing

### THE COMPANY

P.T. Indorama Synthetics was founded in 1976 in Indonesia and is the flagship company of the Lohia Group. Indorama established itself as an internationally competitive manufacturer and exporter of good quality polyester fibre and filament, spun yarns and bottle PET resin. The company is listed on the Jakarta Stock Exchange.

### FINANCING OBJECTIVES

Indorama needed long-term dollar financing. Borrowing in dollars made sense because as an export-oriented company Indorama earned more than 60% of its revenues in US\$. In addition, Indorama received an exemption from the Indonesian securities and exchange authority to report its financial statements in US\$.

### THE STRUCTURE

While Indorama was one of the better known corporates in Indonesia, it faced relatively high dollar borrowing costs because of the perceived Indonesian country credit risk. Working with IFC, the company achieved a synthetic dollar borrowing at significantly lower cost. Indorama borrowed Rupiah 1 trillion from a consortium of local banks. It then entered into currency swaps with IFC to convert the loan proceeds into dollars and hedge the loan repayments over time.

Under the swap, the company received rupiah amounts from IFC and paid dollar amounts to IFC. The rupiah cash flows (associated with the swap and the loans) effectively offset each other.

### OUTCOME

Indorama's funding strategy was based on its comparative advantage in borrowing rupiah locally at attractive rates. The hedging swaps allowed Indorama to transform its rupiah liability into a dollar liability. As a result, the company was able to obtain an attractive funding cost in dollars.

Companies in emerging markets often seek risk management products, but are unable to obtain such products on a cost-effective basis due to the unwillingness of swap counterparties to enter into long-term swaps with them. IFC's ability to take long-term emerging market credit risk permitted us to provide Indorama the currency swaps to achieve its funding needs.



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## TERMS AND CONDITIONS

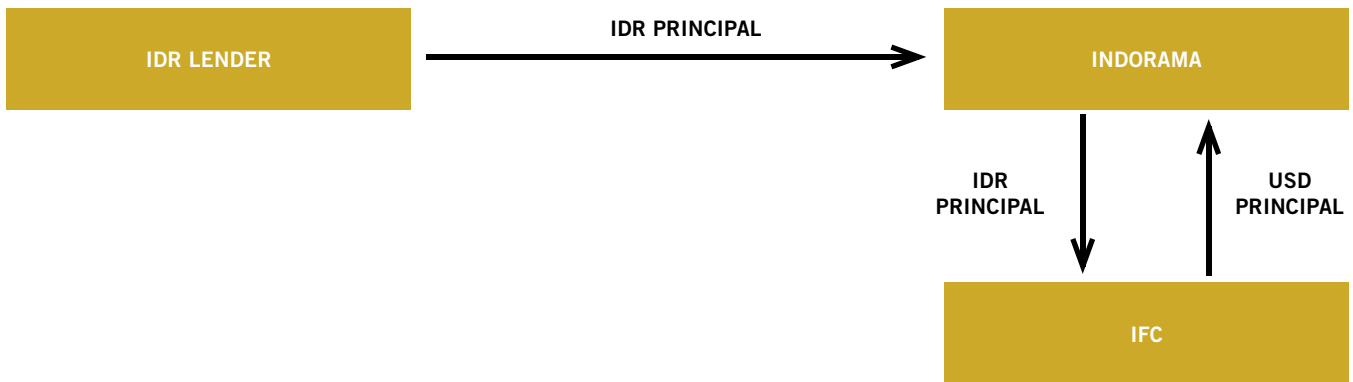
### BOND

<b>Amount</b>	IDR 1 trillion (US\$115 million equivalent)
<b>Currency</b>	Indonesian rupiah
<b>Maturity</b>	5 years
<b>Interest rate</b>	Based on 3-month SBI
<b>Interest payment</b>	Quarterly

### CURRENCY SWAPS

<b>Amount</b>	IDR 1 trillion / US\$115 million
<b>Currency</b>	Indonesian rupiah / US dollars
<b>Maturity</b>	5 years
<b>Interest rate</b>	IFC pays to Indorama IDR SBI cash flows; Indorama pays to IFC USD LIBOR cash flows
<b>Interest payment</b>	Quarterly

### ARROWS INDICATE PAYMENTS AT INCEPTION



### ARROWS INDICATE INTEREST AND PRINCIPAL REPAYMENTS OVER TIME

