

Anrak Aluminium: Bring on the bauxite

09/02/2010

Anrak Aluminium – a joint venture between Andhra Pradesh based Penna Group (70%) and Ras Al Khaima Investment Authority (RAKIA) – signed Rs29.95 billion (\$651 million) of 12 year term loans in December for the first phase of its alumina refinery and 90MW captive power plant project at Makavarapalem in Andhra Pradesh.

The project emanates from a memo of understanding signed in February 2007 between the government of Andhra Pradesh and the government of Ras-al-Khaima in the UAE to set up a greenfield aluminium plant in phases – the first of which will initially be built with a capacity of 1.5mtpa and at an estimated project cost of Rs46.08 billion.

The project is sited in a special economic zone near the port city of Visakhapatnam on the Eastern coast of India. All the land for the project has been procured and environmental permits are in place.

Worley Parsons is overall engineering consultancy and has hired SNC-Lavalin Engineering India for the detailed design engineering and project management. AluminPro Inc of Canada has also been appointed as sponsor consultant.

Anrak has already placed major orders for equipment with FLSmidth, for a gas suspension calcination system, and Hindustan Dorr Oliver/Outotech for a residue separation, washing, flocculation, oxalate removal and causticisation package.

Bauxite feedstock will be supplied by state-owned Andhra Pradesh Mineral Development Corporation (APMDC) which holds the mining rights to the Jerrella Block, about 85km away from the project site. The Jerrella block has estimated bauxite reserves of about 200 million tonnes.

The Rs29.95 billion debt comprises a Rs23.05 billion 12 year term loan, a \$100 million eight year external commercial borrowing (ECB) tranche and a Rs2.3 billion sub debt tranche. The 12 year debt matures on 31 March 2022 and the ECB tranche on 31 March 2018.

Pricing on the senior debt is equivalent to the SBI prime lending rate (SBI PLR) – currently 11.75%. The subordinate debt pays 200bp over SBI PLR and the ECB loan 480bp over one-year Libor.

In total 23 banks joined the deal. The Rs23.05 billion senior debt lenders are Punjab National Bank (Rs2.1 billion), Canara Bank (Rs1.75 billion), Andhra Bank (Rs1.75 billion), Union Bank of India (Rs1.7billion), Indian Overseas Bank (Rs1.6 billion), Corporation Bank (Rs1.3 billion), UCO Bank (Rs1.3 billion), State Bank of India (Rs1.25 billion), State Bank of Patiala (Rs1.25 billion), Life Insurance Corporation of India (Rs1.25 billion), United Bank of India (Rs1.1 billion), State Bank of Hyderabad (Rs1 billion), State Bank of Bikaner & Jaipur (Rs650 million), State Bank of Mysore (Rs650 million), State Bank of Travancore (Rs650 million), Indian Bank (Rs600 million), Karnataka Bank (Rs600 million), Vijaya Bank (Rs550 million), Bank of Baroda (Rs500 million), Bank of India (Rs500 million), Karur Vysya Bank (Rs450 million), Lakshmi Vilas Bank (Rs300 million) and Axis Bank (agent and security trustee, Rs200 million).

The sub debt lenders include Punjab National Bank with Rs650 million, UCO Bank with Rs300 million, Andhra Bank, Canara Bank, SBI and State Bank of Hyderabad with Rs200 million each, Axis Bank with Rs150 million and Lakshmi Bank, United Bank of India, Vijaya Bank and Karnataka Bank with Rs100 million each.

The ECB lenders are Union Bank of India (\$30 million), Axis Bank (\$25 million), Bank of Baroda (\$25 million) and Punjab National Bank (\$20 million).

Repayments are quarterly for the rupee debt and monthly for the US dollar debt, and start post construction, which is expected to take around 30 months. Groundwork started in October 2009 and the commercial operation date is scheduled for April 2012.

Anrak has not yet signed any long-term offtake agreements but lenders can take comfort from strong global demand and projections for alumina and a conservative average alumina price of alumina used in the base case.

Anrak is one of a number of aluminium deals in India that are likely to come to market or close in the coming months. JSW Aluminium is also setting up a Rs44 billion 1.4 mtpa plant in Andhra Pradesh, as is Nalco. And Vedanta Aluminium and financial adviser SBI Capital Markets are near to close on the Rs192 billion (\$4.1 billion) financing of an integrated aluminium project in Orissa: the syndicated debt, which has been oversubscribed by a reported 70%, breaks down into an already-closed tranche of Rs19 billion, a new tranche of Rs100 billion and a green-shoe (or over-allotment) tranche of Rs73 billion.

Anrak Aluminium Ltd (AAL)

Status: Signed 12 December 2009

Description: Aluminium refinery project and captive power plant

Sponsors: Penna Group, RAKIA

Mandated lead arrangers:

Axis Bank, SBI Capital

Participating banks: Punjab National Bank, Canara Bank, Andhra Bank, Union Bank of India, Indian Overseas Bank, Corporation Bank, UCO Bank, State Bank of Patiala, Life Insurance Corporation of India, United Bank of India, State Bank of Hyderabad, State Bank of Bikaner & Jaipur, State Bank of Mysore, State Bank of Travancore, Indian Bank, Karnataka Bank, Vijaya Bank, Bank of Baroda, Bank of India, Karur Vysya Bank, Lakshmi Vilas Bank

Lender legal counsel:

India Law Services, Allen & Overy

Sponsor legal counsel: In-house

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