Jamnagar: Refining Indian debt

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Reliance Petroleum has returned to the market with the first successful project financing in India since the collapse of the Dabhol power project in 2001, having already closed India's biggest IPO earlier in the year. The $1.5 billion loan secured commitments of over $ 3.4 billion, an oversubscription of 2.3 times, and has been extended to $2 billion.

Reliance Petroleum is effectively a spin-off from Reliance Industries following an agreement in June 2005 to divide the group's businesses between the two sons of founder Dhirubhai Ambani.

Mukesh Ambani and younger brother Anil had disputed control of the group's assets. Under the settlement, Mukesh retained Reliance Industries with its main oil and chemicals business while Anil took control of the group's telecommunications, power and financial services businesses.

Reliance Petroleum plans to build a 580,000 barrels-a-day refinery and 900,000 tons a year of polypropylene petrochemicals complex next to parent Reliance Industries' existing 660,000 barrels-a-day plant at Jamnagar in western India – a project that has already helped Reliance Industries more than triple its annual profit since the plant opened in 1999.

Upon start of operations in December 2008, Reliance Petroleum's $6.1 billion refinery complex will be the world's largest with heavy crude oil processing capability.

The project's funding started with a three-part IPO in April when Reliance Petroleum attracted strong global and domestic demand for its sale of a 20% stake.

The company sold 450 million publicly offered shares in a global bookbuild at Rp60 a share, from a range of Rp57-Rp62, raising Rp27 billion ($607 million). It had already placed another 450 million shares with institutional investors on 3 April at Rp60 a share, making the total institutional sale worth Rp54 billion. Those investors are locked up for a year. The two tranches together constitute 20% of the company.

The other part of the IPO was a 20% stake, locked up for three years, that was sold to Reliance Industries. Reliance Industries now owns 75% of Reliance Petroleum's 4.5 billion shares. Chevron holds 5% (with an option to purchase an additional 24% from Reliance Industries) and the other 20% is publicly owned and began trading in early May.

DSP Merrill Lynch and JM Morgan Stanley managed the IPO and handled the international offer. State Bank of India, Citigroup, ICICI Securities and six other banks were also bookrunners. Amarchand Mangaldas, Khaitan & Co and Junnarkar & Associates took the primary local legal roles on the offering with Milbank Tweed and Davis Polk & Wardwell providing international counsel.

With about $32 billion of demand, the 450 million publicly offered shares were 51 times oversubscribed, and more than 99% of investors were willing to pay the top end of the price band.

This month Reliance has followed up its IPO success with a $2 billion non-recourse loan. The deal is the largest syndicated loan for an Indian borrower to date and its massive uptake – 52 banks in all – is symptomatic of the loan market's growing appetite for Indian risk.

Reliance first approached the loan market at end of 2005 eventually appointing a 14-strong MLA group – ABN Amro, Bank of America, BNP Paribas, BTMU, Calyon, Citigroup, DBS, DZ Bank, HSBC, ICICI, Mizuho, SMBC, Standard Chartered, State Bank of India.

All of the original MLAs were also appointed bookrunners, after a number of them objected to a plan for four of Reliance's core banks – ABN Amro, Bank of America, Citigroup and Standard Chartered – to run the books. The MLAs were subsequently joined by a further 12 banks with the same status after financial close in August.

The $500 million increase on the original $1.5 billion debt package is structured as a separate facility that will be funded exclusively by the MLAs pro rata to their original commitments in an effort to keep takes at an acceptable level. Institutions that committed in general syndication were only given the option to join the original $1.5 billion facility.

Reliance had been expected to return to the loan market next year to increase and refinance this deal, but its decision to raise $2 billion in one go makes any refinancing unlikely until the plant comes on stream. The only outstanding debt to raise is a $1.5-$2 billion ECA guaranteed tranche.

The new facility carries the same terms as the original, being divided between two tranches of 7.5 and 10 years. The interest margins are 80bp and 85bp over Libor on each tranche respectively during construction, stepping up to 140bp on the shorter tranche and 165bp on the 10-year portion once the refinery starts operating. Fees are 70bp for an MLA and 65bp for senior lead arranger.

The cheap construction debt reflects a commitment by parent Reliance Industries to fund any cost overruns during construction. Lenders can also take comfort from the asset – while there is currently an excess of heavy crude in the international markets, few refineries can process the heavier and higher-sulphur crude into transportation oil, giving Reliance an edge over other refineries, particularly the Singapore-based refineries that dominate the region.

The success of the deal also suggests lenders have overcome their fear of backing non-recourse debt in India after the $2.5 billion Dabhol power project collapsed in 2001, when the Maharashtra State Electricity Board stopped buying power from the project after a dispute over electricity tariffs. When the government guarantee failed to protect lenders, international project finance to India choked.

Jamnagar Petrochemicals Refinery Complex
Status: Syndication close 13 October
Description: $2 billion partial debt funding of refinery and petrochems complex
Sponsor: Reliance Petroleum
Initial mandated lead arrangers: ABN Amro, Bank of America, BNP Paribas, BTMU, Calyon, Citigroup, DBS, DZ Bank, HSBC, ICICI, Mizuho, SMBC, Standard Chartered, State Bank of India
Mandated lead arrangers: Bank of Baroda, BayernLB, Fortis, HSH Nordbank, HVB, ICBC Asia, Banca Intesa, KBC, KfW, Mashreq, RBS, WestLB
Arrangers: BBVA, NordLB, CCB International Finance, Sanpaolo IMI, Natexis, Union National Bank of Abu Dhabi, Arab Banking Corporation, IKB Deutsche Industriebank
Lead managers: Arab Bank, Canara Bank, Cathay United Bank, Chinatrust Commercial Bank, DNB Nor Bank, Mega International Commercial Bank, National Bank of Kuwait, Nedbank, Syndicate Bank, Taiwan Business Bank
Managers: Banca Monte dei Paschi di Siena, Bank of Bahrain & Kuwait, Bank of Kaohsiung, Bank Simpoac, Dah Sing Bank, Shin Kong Commercial Bank, SBI International, Sunny Bank
Legal counsel to lenders: Milbank Tweed