Refining the terms

01/04/1999

Financing for the $129.5 million Reliance Petroleum project, the biggest grassroots refinery in the world, first closed on December 24 1996. But the deal was restructured when the sponsor decided to withdraw the captive power plant, originally part of this project, and integrate it with a separate project company. With no guaranteed power supply available for the refinery, the deal required restructuring. Arrangers ABN amro, Bank of America and Toronto Dominion were forced to draw up fresh documentation taking into account the loss of the project's power assets. The second transaction closed on January 22 1999.

Pricing for the new financing structure remains the same as the original, starting at 200 basis points over Libor and stepping up to 250bp when the project reaches completion. A spokesman for one of the arrangers says one of the main challenges of restructuring the project has been persuading banks to agree to a new deal with the existing pricing.

But a financier at one of the participant banks says that banks joining the syndication were convinced by the underlying commercial structure of the deal. ?The Indian petrochemical industry is deregulating and opening up and overall there is an energy deficiency in the country, creating a high level of demand,? he says.

The 10-year tenor on the loan, the longest achieved by an Asian company, will also remain, but is calculated from the signing date of the first documentation. The most important change in the financing structure is that the sponsor will provide a greater degree of support for the project. The debt/equity ratio has changed from 50/50 to 40/60.

The arrangers did not consider it necessary to obtain guarantees from multilaterals or export credit agencies because by the time the deal was signed, the project was 85% complete. But a financier working on the project says: ?We have established a more stringent set of definitions of completion.?

Two further features make the deal an innovative one. First, unlike most process industry financing in Asia, which involve strong financial support from sponsors during the operational phase, the Reliance Petroleum project is structured as a non-recourse transaction during the post-completion period. And second, the project is structured on an engineering, planning, construction and management contract rather than the more usual lump-sum turnkey fixed-price engineering, procurement and construction contract. The contract includes a reimbursable cost and management agreement that incorporates a fixed element for the front-end engineering and design. This structure is designed to lower the project's development costs and the project has one of the lowest capital and operational costs compared to other new Indian and international refineries.

Reliance has faced a number of external problems which have threatened the project. The most dramatic was a cyclone which tore across Gujarat in June 1998. Fortunately the damage caused was largely to the temporary construction infrastructure and since the project was fully insured, there was no monetary loss for the sponsor. The project financing was also completed in the aftermath of the economic and political uncertainty in India resulting from the imposition of US sanctions.

Sponsor Reliance Industries is India's largest private sector company and is run by chairman Dhirubhai Ambani and his sons, Amil and Mukesh. Dhirubhai Ambani says: ?This deal is part of our strategy of backward integration.? About 35% of the refinery's output will feed into Reliance's petrochemical system, providing a captive buyer. And this project together with the Jamnagar petrochemicals complex, which the company is also developing, is expected to quadruple Reliance Industries' turnover by 2002.

Reliance Petroleum refinery

Location: Gujarat on the west coast of India

Cost: $129.5 million

Description: Proceeds are to build a 15 million tonne a year oil refinery next to Reliance Industries' petrochemical complex in Jamnagar, Gujarat. The refinery will the largest single stream grassroot refinery in the world. It will help integrate the Reliance Group's petrochemical industries and will supply coke feedstock to Reliance's power plants which will be constructed next to the refinery. The refinery will have a high conversion capability and the ability to handle a wide variety of crude feedstock.

Sponsors: Reliance Industries

Arrangers: ABN AMRO, BA Asia and Toronto Dominion

Facility agent: Toronto Dominion

Syndication group: ABN AMRO, Bank of America, Toronto Dominion, Banque Nationale de Paris, Standard Chartered, WestLB, Gulf International and UCO.

Lawyer to the arrangers and the consortium: White & Case

Lawyers to the sponsor: Linklaters & Alliance and AS Dayal.

Pricing and tenor: 200 basis points over Libor, rising to 250bp when the project reaches completion. The original tenor of the project was 10 years, leaving eight years from the time of restructuring.

Contractor: Bechtel has won a contract to provide technology, engineering, procurement, construction management and project management services for the project. UOP will provide basic engineering and licensing for the project. Black & Veatch will provide technology for the refinery's sulphur recovery facility, Linde for the hydrogen manufacturing facility and Foster Wheeler for the coker facility.

Debt/equity ratio: 40:60

Target completion date: March 2000