OMPL: Profits in paraxylene?

15/04/2010

Oil & Natural Gas Corporation (ONGC) reached financial close on a Rs37.58 billion ($828 million) loan to finance the construction of the ONGC Mangalore Petrochemicals Ltd (OMPL) aromatics complex on 25 February. The plant will be the first in southern India to manufacture paraxylene and is a significant milestone in the development of a polyester market in the region.

State Bank of India (SBI) was mandated as lead arranger in June 2009. At the time, liquidity was tight in India, but SBI brought in tentative commitments from banks within a month of going out for proposals. The deal could have been signed in October 2009, but the sponsor wanted to wait until February 2010, when the engineering, procurement and construction contract was signed with Larsen & Toubro, to close the deal.

A significant hurdle to the deal was, and still is, concern over recent volatility in the paraxylene market. During the first three quarters of 2009, the margin on the product fluctuated between around $400 and around $200 per metric tonne. The central risk being taken by the banks is that of product margin, as the project needs a minimum margin of $250 to be sustainable.

As at the time of writing, offtake agreements are not yet solid, but OMPL is negotiating with groups including JBF Industries, Indorama Synthetics India, BP Asia, Mitsubishi, Marubeni, Hitachi and Mitsui. The company will work with one local and one international company on a long-term basis. The offtake contracts will solidify any uncertainty over product margin, and demand for paraxylene is expected to grow, given predicted polyester market growth in the region.

The debt features 18 lenders and came in almost three times oversubscribed. Bank takes on the Rs37.58 billion facility are: SBI (Rs7.58 billion), Canara Bank (Rs3.75 billion), Bank of Baroda (Rs2.5 billion), Punjab National Bank (Rs2.5 billion), Bank of India (Rs2 billion), Corporation Bank (Rs2 billion), Syndicate Bank (Rs2 billion), UCO Bank (Rs2 billion), Union Bank of India (Rs2 billion), Oriental Bank of Commerce (Rs2 billion), Indian Bank (Rs2 billion), United Bank of India (Rs1.5 billion), State Bank of Travancore (Rs1.25 billion), Andhra Bank (Rs1 billion), Dena Bank (Rs1 billion), Punjab & Sind Bank (Rs1 billion), South Indian Bank (Rs750 million) and Jammu & Kashmir Bank (Rs750 million).

The debt has a 13.25-year tenor, which includes 2.75 years for construction, a 1.5-year grace period and a repayment period of nine years with 36 equal quarterly instalments. Margin is a floating rate of 125bp under SBAR, which now stands at 11.75%, making pricing on the loan, to 25 February 2011, 10.5%.

The floating rate will be reset in line with SBAR annually, and OMPL has the option to prepay the loan on the interest reset dates without penalty. It also has an option to refinance up to 30% of the debt through ECA and/or ECB facilities. The debt to equity ratio is 65:35, and minimum debt service coverage ratio is 1.4x.

Sponsors ONGC and Mangalore Refineries & Petrochemicals Limited (MRPL – a subsidiary of ONGC) will jointly own a 100% stake in the plant, which will be diluted at a later stage to 49%, with the remaining piece to be offered to financial and strategic investors, offtakers and the public. The two firms will arrange 100% of the equity, as well as maintaining a holding of at least 49% in OMPL throughout the tenor of the rupee loan.

The plant will produce around 913,700 metric tonnes per year of paraxylene and around 283,000 metric tonnes per year of benzene, both of which will be exported from Mangalore Port, and other byproducts including hydrogen, heavy aromatics and LPG, starting from naphtha as a raw material.

The industrial estate where the plant will be built is being set up by the Mangalore Special Economic Zone, and comprises 442 acres of land on a long-term lease. The complex will get its naphtha and aromatic stream feedstock from the MRPL refinery, and pipelines will be laid to transport it. The plant will use natural gas to fuel its captive power plant, as well as to process heating. Gas will come via a proposed Kochi-Mangalore pipeline. Toyo Engineering is the project management consultant for the complex and UOP is providing process technology.

The strong appetite for this project financing, as evidenced by the 3x oversubscription, is based on the belief that global trade in paraxylene will hit forecast and grow at a brisk rate. China is still a net importer, for example. Global consumption of the material is expected to grow by around 7% per year between 2008 and 2013, with Asia growing at 8.5% per year, driven largely by the Indian and Chinese markets.

OMPL
Status: Financial close 25 February 2010
Description: Rs37.58 billion financing of an aromatics complex in Mangalore, southern India
Sponsor: Oil & Natural Gas Corp, Mangalore Refinery & Petrochemicals Ltd
Lead arranger: SBI Capital Markets
Participating banks: SBI, Canara Bank, Bank of Baroda, Punjab National Bank, Bank of India, Corporation Bank, Syndicate Bank, UCO Bank, Union Bank of India, Oriental Bank of Commerce, Indian Bank, United Bank of India, State Bank of Travancore, Andhra Bank, Dena Bank, Punjab & Sind Bank, South Indian Bank, Jammu & Kashmir Bank.
Legal adviser to the sponsors: Luthra & Luthra
Legal adviser to the lenders: Amarchand & Mangaldas & Suresh A Shroff & Co
EPC contractor: Larsen & Toubro