

OPaL: Petrochemicals goes large

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The largest syndicated petrochemicals project in India and the first project financing by an ONGC sponsored company in the petrochemicals sector, the bank response to the 14.5 year, Rs87.08 billion (\$1.85 billion) ONGC Petro-additions Ltd (OPaL) rupee-denominated project financing was a 30% oversubscription up to Rs119 billion – a significant achievement given the competition for locally raised project debt in India in 2009.

Although the Indian project debt market has been largely unmolested by the global credit crunch, the global decline of margins in the petrochemicals sector presented a significant challenge to getting the deal financed at competitive rates. Furthermore, the lack of access to dollar loans, and consequent record demand for, and supply of, project debt from Indian banks to domestic projects in the last three years, meant OPaL was competing with a strong sponsor line-up for domestic bank cash.

The 14.5-year tenor was also an issue because Indian banks are generally not in a position to extend facilities with a tenor exceeding 10 years after commissioning, due to asset liability mismatch.

On the upside the Indian petrochemicals industry is still quite small by global standards. India's ethylene capacity is around 3 million tonnes per year and only accounts for just over 2% of global capacity. The domestic per capita annual consumption of petrochemicals is also one of the lowest in the world and is forecast to grow rapidly led by demand from flexible and bulk packaging, injection moulded components (used in consumer durables and automobiles) and pipes (used in agriculture, infrastructure and construction).

Promoted by triple-A rated ONGC (26%) and Gujarat State Petroleum Corporation (5%), via special purpose company OPaL, the Rs124.4 billion, 1.1 mmtpa olefin-based petrochemicals project will be located within Dahej Special Economic Zone (SEZ), being developed by Dahej SEZ Ltd and in which ONGC and GIDC (Gujarat Industrial Development Corporation) are the co-promoters. OPaL will serve as an anchor industry for Dahej SEZ and will also benefit from various tax and other incentives available to SEZ units.

The project will comprise a 1.1 mmtpa dual feed cracker, 2x540 ktpa HDPE/LLDPE swing units, a 340 ktpa polypropylene unit and benzene/butadiene extraction units. The cracker will have the capacity to produce 1,100 ktpa of ethylene and 356 ktpa of propylene. That petrochemical feedstock will be used by the project's downstream polymer units to produce polyethylene (HDPE/LLDPE) and polypropylene (PP).

The project configuration is for a world-scale cracker with downstream polymer units that will benefit from low production costs and economies of scale. Engineers India Limited is project management consultant and the cracker package is being procured from Linde-Samsung consortium on a lump sum turnkey basis. Foster Wheeler Energy Limited (UK) is the front end technology consultant while IVRCL is responsible for site infrastructure development.

ONGC proposes to use C2+ fractions, aromatic rich naphtha (ARN) and low aromatic naphtha (LAN) as feedstock for the project. C2+ fraction will be sourced from ONGC's upcoming C2+ extraction plant in the Dahej SEZ, while ARN and LAN will come from ONGC's gas processing complexes at Uran and Hazira. This ensures continuous feedstock supply at the desired scale for the project and adds value to ONGC's in-house feedstock operations.

Dahej SEZ Ltd also has plans to attract a number of tertiary petrochemical units within Dahej SEZ which will use some of the intermediate raw material – HDPE, LLDPE, PP – produced by OPaL.

The locally raised Rs87 billion financing for the project comprises a 14.5-year non-recourse loan lead arranged by SBI Capital Markets and priced at 75bp below the State Bank of India's advance rate (11.75%). The deal comes with the flexibility to refinance on annual reset dates without any penalty and thus reduce interest rate risk after construction is over. The sponsors can also alter the disbursement schedule for the project by providing a notice to the lenders.

The loan pulled participation from 26 banks which took comfort from a range of project supports provided by ONGC: First, the sponsor has made an undertaking that it, together with its subsidiaries, will maintain at least 26% equity and continue to hold management control over OPAL at any time during the currency of the loan. Second, to mitigate project completion risk, ONGC is committed to provide funds in the form of equity or sub debt to meet any cost overrun. And third, ONGC is guaranteeing feedstock for the project.

The loan agreement includes provision for non-rupee financing of up to 30% of the total debt amount and OPaL recently mandated BNP Paribas to arrange up to \$1 billion in ECA loans to finance equipment for the project – debt which may replace part of the rupee denominated facilities closed last year.

The equity backing the project comprises ONGC and GSPC funding up to 26% and 5% respectively, while the balance will be raised from strategic investors/institutions and an IPO which is expected to be launched in 2011-12, just before completion of the plant.

ONGC Petro-additions Limited (OPaL)

Status: Financial close and signing 29 June 2009

Description: \$2.64 billion 1.1 MMTPA olefin based petrochemicals project in the Special Economic Zone (SEZ) at Dahej, Gujarat, India

Sponsor: Oil and Natural Gas Corporation Limited (ONGC); Gujarat State Petroleum Corporation

Lead arranger and financial adviser: SBI Capital

Participants: Allahabad Bank; Andhra Bank; Bank of Baroda; Bank of India; Bank Of Maharashtra; Bank Of Rajasthan; Canara Bank; Central Bank of India; Corporation Bank; Dena Bank; Indian Bank; Indian Overseas Bank; J&K Bank

Sponsor legal counsel: Luthra & Luthra

Lender legal counsel: Amarchand & Mangaldas & Suresh A Shroff & Co

Technical consultant: Engineers India Limited

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