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OMPL: Polyester mix

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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 (OMPL) aromatics complex on 25 February 2010. The plant is the first in southern India to manufacture paraxylene and is a significant milestone in the development of a polyester market in the region.

The project is built on strong economic foundations: The global trade in paraxylene is forecast to grow at a high rate, as China is expected to remain a net importer and exports from the Middle East, India, Thailand and Indonesia are to fulfil the deficit. Global paraxylene consumption is forecast to grow at an average of 7% a year between 2008-2013, with Asia leading in the growth at an average of 8.5% a year, mainly through China and India.

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 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 taken by the banks is that of product margin, as the project needs a minimum margin of $250 to be sustainable.

The company will work with one local and one international offtaker 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. 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, making the initial all-in pricing on the loan 10.5%.

As is typical for the majority of recent Indian project financings, during operation the margin will reset in line with SBAR annually, and OMPL has the option to prepay the loan on the interest reset dates without penalty enabling it to take advantage of interest rate arbitrage post-completion. It also has an option to refinance up to 30% of the undrawn 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 aromatics complex is being set up in the Mangalore Special Economic Zone alongside MRPLs refinery to produce paraxylene and benzene from the naphtha and other feedstock supplied by MRPL. The plant will produce around 913,700 metric tonnes per year of paraxylene and around 283,000 metric tonnes per year (tpy) of benzene. The complex will use natural gas as fuel for a captive power plant, as well as process heating, which will be provided by the proposed GAIL Kochi-Mangalore gas pipeline.

The project site is located roughly 12km from Mangalore Port, which would be used for exports. The complex will get its feedstock, mainly naphtha and aromatic streams, from the MRPL refinery. OMPL is also in talks with various offtakers in the chemicals sector which are interested in setting up a dedicated PTA plant (which uses paraxylene as feedstock) or other downstream plant (which uses benzene as feedstock) in the vicinity of the aromatics complex as well as for sale for further processing or for trading. The project could therefore help develop the polyester and PET market in southern India.

Apart from benzene and paraxylene, the aromatics complex will also produce paraffin-rich raffinate, LPG and hydrogen. Paraffin-rich raffinate will be used by MRPL refinery for further processing while LPG, which will be sold by MRPL in the market.

ONGC Mangalore Petrochemicals
Status: Financial close 25 February 2010
Size: Rs37.58 billion
Location: Mangalore, India
Description: Aromatics complex
Sponsor: Oil & Natural Gas Corp, Mangalore Refinery & Petrochemicals Ltd
Financial adviser and sole 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