Reliance Petroleum Jamnagar refinery

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The closure of the US$1.5 billion international debt tranche for Reliance Petroleum's Jamnagar refinery in Gujarat might just mark the end of the post-Dabhol hiatus in Indian project financing

The deal also has the longest tenor for a syndicated loan financing in India and represents the largest limited recourse transaction to be signed since the Enron IPP deals of the early 2000s.

In the wider Asian region, the deal is the largest limited-recourse financing, excluding China, since the Asian financial crisis of 1997.

Furthermore, the deal is sponsored by an Indian-based conglomerate and leaves the international banks fully exposed to commercial risk.

So what went right?

Background

The project to build a US$6 billion refinery and petrochemical complex is led by Indian oil, petrochemicals and engineering heavyweight Reliance Industries Limited (RIL) - formerly a division of Reliance Group.

After a fraternal power struggle between Reliance Group heirs Mukesh and Anil Ambani ended in 2005 with the division of the company - Mukesh's RIL emerged as India's largest private sector company with a turnover of US$20 billion in FY 2005.

As one Asia-Pacific banker states the company enjoys huge regional kudos, 'If you can not back a deal sponsored by Reliance, what can you back?'

RIL already operates a 660,000 barrel per day refinery on the Jamnagar site in Gujarat, but decided to build a heavy crude refinery to take advantage of a market awash with heavy crude.

RIL decided to launch the new refinery as a non-recourse subsidiary Reliance Petroleum Limited (RPL) - funded through IPO equity, commercial debt and ECA loans from an international market increasingly hungry for heavy crude refining capacity.

International interest in the refinery was confirmed in April this year when Chevron - already active at the RIL refinery - paid Reliance US$300 million for a 5 per cent stake and option to purchase a further 24 per cent in the project.

The project

The strength of the new refinery is its adaptation to a market increasingly dominated by heavy crude. The RPL refinery will be capable of producing 580,000 barrels of heavy sour crude oil per day at an average API of 24 and with a complexity of 14.0 on the Nelson Complexity Index (NCI).

In short, it will be able to process much heavier and higher-sulphur crude than both the existing RIL refinery (which loads crude with an API of 28 and complexity of only 11.0) and also, crucially, the Singapore-based refineries which dominate the region.

It is this factor, along with the creditworthiness of the sponsors, which has drawn bankers to finance the deal without a full corporate guarantee but an 'RIL Undertaking' to complete the project - an arrangement where RIL provides completion support for an uncapped amount.

Indeed the banks are taking full commercial risk for the deal based on its fundamentals.

'What you have is a refinery that can take very heavy sour crude and turn it into transportation oil,' said one of the MLAs to the deal. 'There is an excess of heavy crude now in the international market and a lack of refineries that can process it, so the fundamentals are very good.'

The deal is structured to be viable in a worst-case scenario where the light-heavy crude differential is just US$1.

However, with the differential now hovering at US$5-6 dollars per barrel and the refinery widely expected to charge an extra premium based on the complexity of crude that can be processed - that is 'not the expected scenario'.

The refinery will be combined with a 900,000-tonne polypropylene facility to help offset commodity risk.

As with the RIL refinery, the new project will be built within the boundaries of the Jamnagar Special Economic Zone (SEZ) to benefit from more lenient tax regulations as well as a degree of security from government interference.

The project will sell on a spot basis, apparently mainly to US and European markets.

The financing

In February RPL finalised 14 international and domestic MLAs: ABN Amro, Banc of America Securities, BNP Paribas, BTMU, Calyon, Citigroup, DBS Bank, DZ Bank, HSBC, Mizuho Financial Group, SMBC, Standard Chartered, ICICI Bank and State Bank of India.

The pricing and syndication structure is structured as follows:

The plant's export revenues will also be US dollar-denominated mitigating substantial commodity mismatch. The limited hedging risk based on the plant's rupee-denominated revenues from sulphur and petroleum coke (2 per cent of revenues) will be borne by the sponsors.

The 10-year tenor of the tranche B loan marks the longest commitment from the international market to a project in India.

The deadline for international syndication is September 25.The deal is dominated by international MLAs but the syndication roadshow will take in Mumbai, a sign of the strength of regional interest.

At the end of April RPL raised US$600 million through an IPO, which partly on the back of Chevron's involvement was 51 times oversubscribed.

The balance of the financing for the US$6 billion complex is expected to be provided by swelling the equity component to US$2.5 billion and securing a further US$2 billion in ECA loans.

Conclusion

Whether the close of the deal heralds a return of confidence to the Indian market or a one-off is hard to predict in a country that often promises more than it delivers.

Kenneth Lau, Vice President Project Finance at BTMU Singapore says, 'This demonstrates the confidence international lenders have in India and in Reliance Industries.'

However in a market still short of private companies with the stature of RIL, only when the scale of Indian conglomerate's ambitions is matched by the strength of their balance sheets are they likely to command international interest.

The project at a glance

Project Name	Reliance Petroleum Limited (Jamnagar Refinery)
Location	Jamnagar Special Economic Zone, Gujarat, western India
Description	Construction and operation of a brownfield refinery and petrochemical complex processing 580,000 barrels of heavy crude per day and 900,000 tonnes of polypropylene
Sponsors	Reliance Petroleum Limited (RPL), an SPV owned by: • Reliance Industries - 75 per cent • Publicly-owned shares - 20 per cent • Chevron - 5 per cent (with an option to purchase a further 24 per cent from Reliance Industries)
Operator	RPL
Operation date	December 2008
Total Project Value	US$6 billion
Total equity	US$1.5 billion
Equity Breakdown (notional)	• Reliance Industries - US$1.775 billion • Public shareholding - US$600 million • Chevron - US$125 million
Total senior debt	US$1.5 billion
Senior debt pricing	See syndication diagram above
Debt:equity ratio	58:42
Export credit agency support	US$2 billion ECA guarantee expected
Mandated lead arrangers	• ABN Amro • Banc of America Securities • BNP Paribas • BTMU • Calyon • Citigroup • DBS Bank • DZ Bank • HSBC • Mizuho Financial Group • SMBC • Standard Chartered • ICICI Bank • State Bank of India
Legal adviser to banks	Milbank Tweed
Financial adviser to banks	None
Insurance adviser to banks	Taylor Risk Consulting
Launch of syndication	11 August 2006