

RusVinyl Petrochemicals Project

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Russian petrochemicals firm SIBUR signed off on €750 million in international debt commitments for its second major project in as many years with the RusVinyl PVC scheme in the region of Nizhny Novgorod.

Developed alongside joint venture partner SolVin, a German petrochemical company owned by Belgium's Solvay (75 per cent) and BASF (25 per cent), the project is designed to supply the Russian market with PVC products easing reliance on expensive imports.

Unlike SIBUR's predecessor project, the Tobolsk polypropylene facility [\[Transactions Database\]](#), RusVinyl is to all intents and purposes Russia's first project finance deal not led by export revenue, with banks taking full market risk for the first time – albeit with export credit agency (ECA) guarantees.

Whereas Tobolsk used an innovative foreign investment structure utilising Vnesheconombank (VEB) as quasi state cover for foreign direct investment from a club of international banks, RusVinyl incorporates a full range of European ECAs, the EBRD, international commercial banks and local lender Sberbank to provide a balanced financing in line with the 50/50 SIBUR and Solvay joint venture.

The project

The RusVinyl project itself will be a 330,000 tonne per annum Polyvinyl Chloride (PVC) Integrated Plant near Kstovo in the Nizhny Novgorod region of Russia. Once complete the facility will be the largest of its kind in Europe and also produce 300 kilotons of PVC-suspension, 30 kilotons of PVC-emulsion and 235 kilotons of caustic soda with room for expansion if domestic demand continues to rise.

The project is primarily driven by domestic demand, with Russia short on petrochemical products production capacity despite an abundance of cheap natural gas and oil feedstock. Nizhny Novgorod's regional government lists the project as having Priority Status with RusVinyl also in line with Russia's long term strategic development plan for the petrochemical industry outlined by the Ministry of Industry and Trade.

Project development gathered pace in 2007, with pre-project documentation and an Environmental Impact Assessment completed. Construction began in July 2010 at the site with commercial operations expected to begin in 2013.

The financing

With the sponsors preferring to hold back on signing offtake agreements, commercial lenders BNP Paribas, HSBC and ING had to look at the deal from a different perspective. Recent local market landmark deals like Sakhalin II and Nord Stream were underpinned by natural resource export and a foreign currency revenue stream – each with a facilitating offshore financial structure.

Stephen Bedwood heads up HSBC's financial advisory role on the project and says, "RusVinyl will sell most, if not all, of its products on the domestic market in Russia and will be generating revenues predominantly in roubles. This is the first time international lenders are taking project risk on a locally focused project.

"As well as being domestically orientated there are no long-term offtake agreements. That is unusual for similar projects elsewhere in the world so we see it as a landmark in a less mature project finance market like Russia."

SIBUR's head of treasury Pavel Ananenko, told IJ that the core aim of the financing was to ensure a balanced group of lenders that did not overcomplicate an already complex financing. The documentation package signed with the EBRD runs to 54 pages alone.

He observes that in the same way the joint venture is balanced between a European and Russian company, the lending group is also balanced, representing different interests. Such a lending group means that the finance is not based on one single influence and we made a great effort during the financing to ensure that structure.

Ananenko also feels the challenge of coordinating everyone's interests was the overriding theme of RusVinyl negotiations, reflecting the sentiment of those close to the deal that setting a market precedent in Russia presented some coordination issues to get the model right.

Stephen Bedwood notes, "Although there was significant commercial bank appetite for the deal we deliberately kept the bank group small. On a complex, first of its kind transaction like RusVinyl, working through with a large bank group would have only made the process more difficult."

The €750 million project finance package is split across the following tranches:

- €150 million equivalent rouble denominated loan provided by Sberbank maturing over 11 years
- €150 million equivalent rouble denominated direct loan from the EBRD maturing over 11 years
- €450 million ECA covered commercial debt provided by BNP Paribas, HSBC and ING maturing over 12 years

Coface and ONDD are guaranteeing the international commercial debt for equipment, licence and service purchases from the French and Belgian suppliers to the project. The cover provided is said to be less comprehensive than usually supplied, with that reflected in a pricing structure upwards of 350bp.

RusVinyl also perfectly illustrates the strengthening Russian domestic lending market, with Sberbank coming in alongside three of the Europe's biggest banks. IJ understands that at one stage in the early negotiations Sberbank expressed its willingness to finance the whole project, if appetite from international lenders was not strong enough to push the deal through.

As it turned out the market was a willing partner for RusVinyl leading the sponsors and advisers to begin looking at the sweet sour ratio and how best to incorporate Sberbank.

According to Ananenko the ECAs said they could cover €450 million so we needed to ensure another €300 million in uncovered finance. The EBRD played a very important role in helping us along with the term sheet but its credit appetite was only €150 million, and it became obvious to SIBUR that international banks would not take uncovered risk on another €150 million with the 11 year tenor we were hoping for.

That led to Sberbank playing a vital role in the deal by willingly taking on full uncovered debt denominated in rouble.

The future

A third petrochemical project is also in development by SIBUR with Ananenko revealing that this deal will be smaller and funded through the Russian debt market. When the financing comes to completion it would complete SIBUR's series of deals – foreign investment, international project finance and a pure Russian bank financed deal.

If the market can take one trend from the RusVinyl financing it is that projects do not always need a solid offtake

agreement in place to debt finance as long as the scheme rationale is strong. In the case of Russia, domestic demand for plastics and synthetics is rising substantially making the case for investment clear.

A number of schemes are also currently being considered by international developers, with banks looking closely at advisory mandates on the horizon. Looking to the future, Stephen Bedwood sees more opportunities ahead for investors but a fresh perspective may be necessary.

“One thing that will be interesting about the petrochemicals sector going forward is that it’s likely to be a domestically focused market which means the lending community might need to think differently about how they appraise risk. Due to factors such as logistics and strong domestic demand the export orientated model seen in the Middle East is unlikely to be replicated in Russia,” he concludes.

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