6th Petrochemical Conclave
29th July 2017, Mahatma Mandir, Gandhinagar, Gujarat
Under the aegis of Ministry of Petroleum & Natural Gas Government of India
Coordinated by IndianOil

Petrochemical Projects: Innovative Financing

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Synopsis

Petrochemical Projects are capital intensive projects with long gestation periods, high fixed costs and a volatile commodity cycle affecting the demand supply dynamics. Key areas of concern of project Promoters are availability of long tenor funding, optimal borrowing costs, mitigation of currency risk, and flexibility for refinancing the debt in line with project cash flow projections.

This presentation discusses various innovative Financing Options to address/mitigate the above concerns with the objective of maximizing Shareholder's Value.
Given the volatility of petrochemicals commodity cycle, Promoters intend to secure financing with no recourse or limited recourse to themselves. This may be achieved through a ring-fenced security structure, with charge on project assets, project cash flows and designated accounts without any recourse to Sponsors. Credit enhancement may be provided through Sponsor Support in the form of undertaking to arrange equity, fund cost overrun and retain management control to help obtain a competitive pricing.

The optimum financing strategy for Petrochemical Projects on SPV basis should be to first achieve financial closure through Rupee Term Loans which provide longer maturity (upto 80% of economic life of the Project) aligned with cash-flow projections of Company and flexibility for refinancing. Further, ancillary infrastructure such as CPP, etc. may be ring-fenced as a separate security package to avail ECA funding at competitive pricing.

As the Project approaches commissioning, undrawn RTL may be replaced with ECA/ECB to reduce borrowing costs and currency risk. Once the project is commissioned and construct risk is over, RTL facility may be refinanced with revised maturity and improved pricing. The Petrochemicals Company may also issue Bonds at this stage to replace the outstanding RTL facility.

Further, Quasi-Equity Instruments viz. Convertible Bonds, etc. may be tied-up in lieu of Equity during the construction phase to reduce overall cost of capital and improve Promoters' Return on Equity. Quasi Equity reduces quantum of promoter equity infusion and keeps capital base in check for better IPO/Premium prospects.