

Utkal Aluminium: Hindalco rescue

11/04/2011

The Utkal Aluminium deal, which signed in late July, provides the strongest indication yet that foreign lenders are prepared to enter the Indian project finance market for the right credits. Of all banks, RBS, with its self-professed emphasis on UK lending, was one of the most unlikely to take a mandated lead arranger role on an Indian aluminium project financing but it did.

Sponsored by Utkal Alumina International, a subsidiary of Hindalco Industries with which RBS/ABN Amro has had a longstanding relationship, the Rs70.09 billion (\$1.57 billion) aluminium project comprises a 1.5 million tonnes-per-year (tpy) alumina refinery, 8.5 million tpy of bauxite mines (the 195 million tonnes Baphlimali deposit), a 90MW captive cogen plant (with feedstock from Mahanadi Coalfields), a 20km conveyor from the bauxite mines to the refinery, and a range of associated infrastructure. All output from the project is likely to be sold to Hindalco, which is putting Rs21.03 billion of equity into the deal.

Hindalco had to overcome a long history of difficulties and delays associated with the project before its became involved. The project was originally conceived in 1992, with commissioning scheduled for 1997, but it faced long delays because of complaints and protests from environmentalists and local residents.

The Tata group led the project during most of the 1990s, but sold its stake in the project to Alcan and Norsk Hydro in 1999. Frustrated with the slow progress of the project, Norsk Hydro abandoned its 45% holding in the project in 2001. Alcan too followed suit, selling its stake to Hindalco in 2007. Hindalco then became sole owner of Utkal in 2008 when Hindalco merged with Indal. Despite nearly two decades of tortuous progress, Hindalco managed to close the project after just a few short years at the helm.

The project features a mix of standard lump-sum turnkey contracts with equipment vendors and engineering, procurement and construction management management contracts with technical consultants. The EPC-M model involves technical consultants carrying out basic engineering, procurement technical oversight, construction management and inspection. Site contractors carry out the civil works and building, and the project company procures the equipment and will commission the plant with assistance from consultants. Commissioning is now slated for early 2012.

Lead arranged by SBI Capital, IDBI Bank and RBS, the project debt comprises a Rs49.06 billion term loan with an 11.5-year tenor, inclusive of a one-year grace period and 2.5-year year construction period. Debt repayment is in 32 quarterly instalments spread over eight years. Since commercial operations are scheduled for December 2012 the first repayment instalment will be due in December 2013.

Margin on the debt is 325bp over the SBI base rate, although the interest rate can be reset annually without penalties thus enabling the sponsor to take advantage of lower rates post-COD. The deal also features a cash sweep to give added lender comfort.

The debt pulled in bank takes from 28 lenders in total and was 2.23x oversubscribed when syndication closed in February 2010. IDBI Bank (facility agent), State Bank of India (trust and retention accounts) and RBS have committed Rs6.5 billion, Rs6.5 billion and Rs3.3 billion respectively.

The participant banks are: Allahabad Bank, Andhra Bank, Axis Bank, Bank of Baroda, Bank of India, Canara bank, Corporation Bank, Dena Bank, Dhanklaxmi bank, Export-import Bank of India, HDFC Bank, Indian Overseas Bank, IndusInd Bank, Jammu & Kashmir Bank, Oriental Bank of Commerce, Punjab National Bank, State Bank of Bikaner & Jaipur, State Bank of Hyderabad, State Bank of Mysore, State Bank of Patiala, Syndicate Bank, UCO Bank, United Bank of India, Vijaya Bank and Yes Bank.

Hindalco is one of the lowest-cost aluminium producers in the world and has a vertically integrated structure, from bauxite mining to smelting and downstream sheet and foil rolling, extrusions and alloy wheels. Hindalcos aggregate alumina production is 1.23 million tpy and aluminium production of 500,000 tpy.

The Utkal refinery will use tried and tested Bayer process technology for alumina extraction from bauxite. The estimated bauxite feedstock for the refinery is 4.25 million tpy, which will be supplied from the Baphlimali bauxite deposit. The deposit mining licence has been transferred from Orissa Mining Corporation to Utkal. The 90MW cogeneration plant will require around 0.92 million tpy of coal feedstock, which is to be supplied by Mahanadi Coalfields.

Hindalco repeated its success in gaining international support for the Utkal project with the Mahan Aluminium project in March 2011. Mahan closed through a Rs78.75 billion (\$1.74 billion) debt package with a door-to-door tenor of 12.75 years. RBS and SBI returned as mandated lead arrangers on the debt, along with Citi and Kotak Mahindra Bank, and the debt was syndicated to around 31 banks and insurance companies. The Mahan Aluminium project consists of a smelter and 900MW power plant in Madhya Pradesh. The project has access to the Mahan coal block (off the main basin in the Singrauli coal fields) through a joint venture with Essar Power. Hindalcos share in the coal block is about 3.6 million tpy.

Utkal Aluminium

Status: Signed July 2010

Description: Rs70.09 billion alumina refinery project in India

Sponsor: Hindalco

Lead arrangers: SBI Capital, IDBI, RBS

Participants: Allahabad Bank, Andhra Bank, Axis Bank, Bank of Baroda, Bank of India, Canara bank, Corporation Bank, Dena Bank, Dhanklaxmi bank, Export-import Bank of India, HDFC Bank, Indian Overseas Bank, IndusInd Bank, Jammu & Kashmir Bank, Oriental Bank of Commerce, Punjab National Bank, State Bank of Bikaner & Jaipur, State Bank of Hyderabad, State Bank of Mysore, State Bank of Patiala, Syndicate Bank, UCO Bank, United Bank of India, Vijaya Bank and Yes Bank

Lender legal counsel: Amarchand Mangaldas

Sponsor legal counsel: Dhir & Dhir

Project managers: Uhde (refinery), Fichtner (power plant)

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