

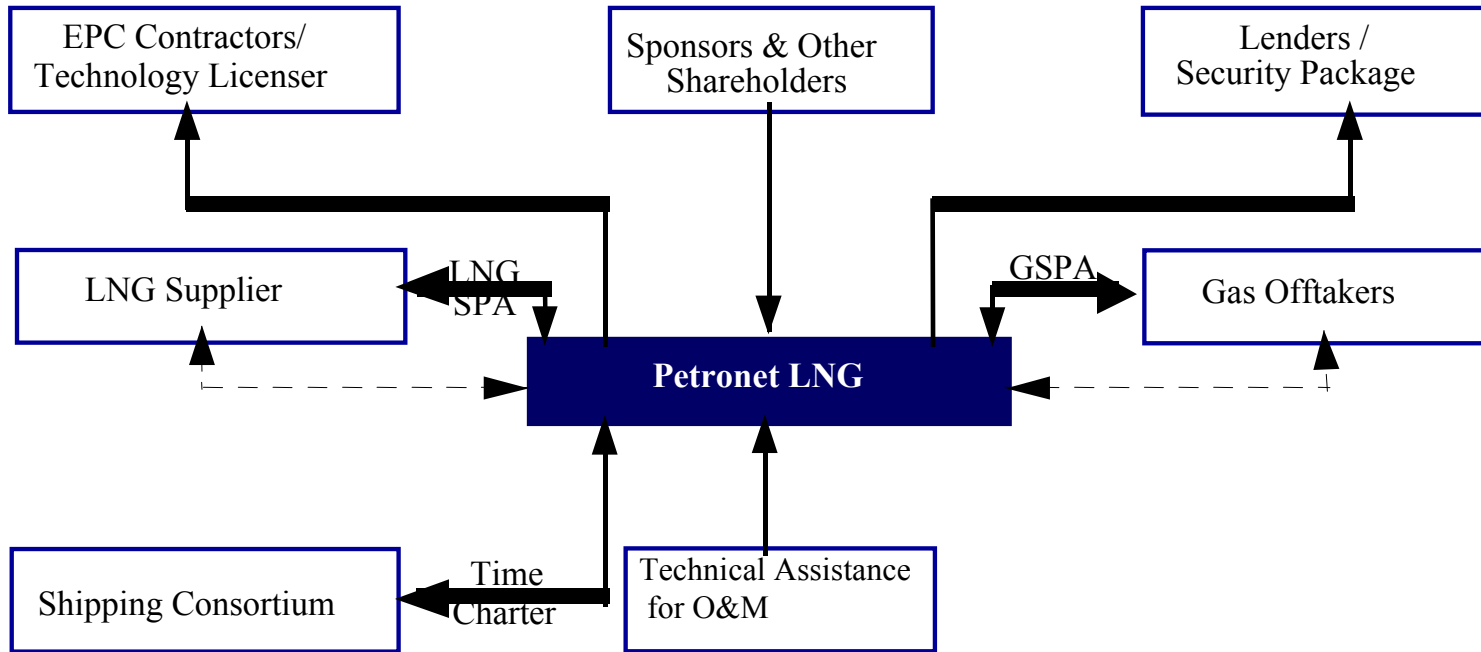
A Case Study of LNG Sector in India

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PROJECT FINANCE – A BRIEF OVERVIEW

- **Project Finance:** financing & development technique justified on the strength of future projected earnings.
- Involvement in the project by each of the participant is on the analysis of the risks in the project and the ability of the person to whom the risk has been allocated, to manage it.
 - Documentation designed to allocate risks in relation to the Project to such person who is best able to bear and/or mitigate it.
- Contractual framework for the development and financing is designed to ensure no possibility of leakage of assets and cash.
- Control over assets is ensured, interalia, through creation of security interest over them.

Contractual Structure – Petronet LNG



Project Development and Construction

- All development risks borne by sponsors by raising construction funding from lenders on fully guaranteed basis.
- Structuring of construction contracts - Turnkey Fixed Price Term Contract
 - Onshore Supply Contract
 - Offshore Supply Contract
 - Onshore Service Contract
 - Offshore Service Contract
 - Wrap Agreement
- Construction risk mitigated by awarding of Fixed Price, Date Certain Turnkey EPC Contract to an internationally reputed contractor after a global bidding process.

Project Development and Construction cont'd...

- Stringent Performance guarantees and LDs for shortfall in performance and time delay.
- Stipulated time period for completion – force majeure, back to back – LDs, carve –outs.
 - Timelines for construction of evacuation pipelines, upstream train and vessels.

Market & Revenue Risks

- Experience and track record of suppliers (Ras Gas).
- Procuring LNG at competitive price.
- Risk mitigation through back-to-back offtake agreements with credit worthy offtakers; recourse to financial products like hedges.
- Ability to pass on variable costs to offtakers also helpful.
- In offtake agreement, other participants prefer certainty of offtake and payment obligation through “take or pay” mechanism.
- Long Term GSPAs with financially strong intermediate off-takers with annual take or pay provisions.
- Regasification charges structured so as to ensure base level of cash flows to the Company.
- LNG cost pass through at actuals to the intermediate off-takers.

Inter-Creditor Issues

■ Foreign Lenders

- Benefit of SARFAESI Act and RDDBFI Act (DRT Act) not available
- Creating inter-creditor mechanism remains a challenge
 - Domestic lenders should continue to enjoy their rights while foreign lenders do not get disadvantaged
 - Turnover Provisions
- Different governing law and forums may result in multiple litigation in a default

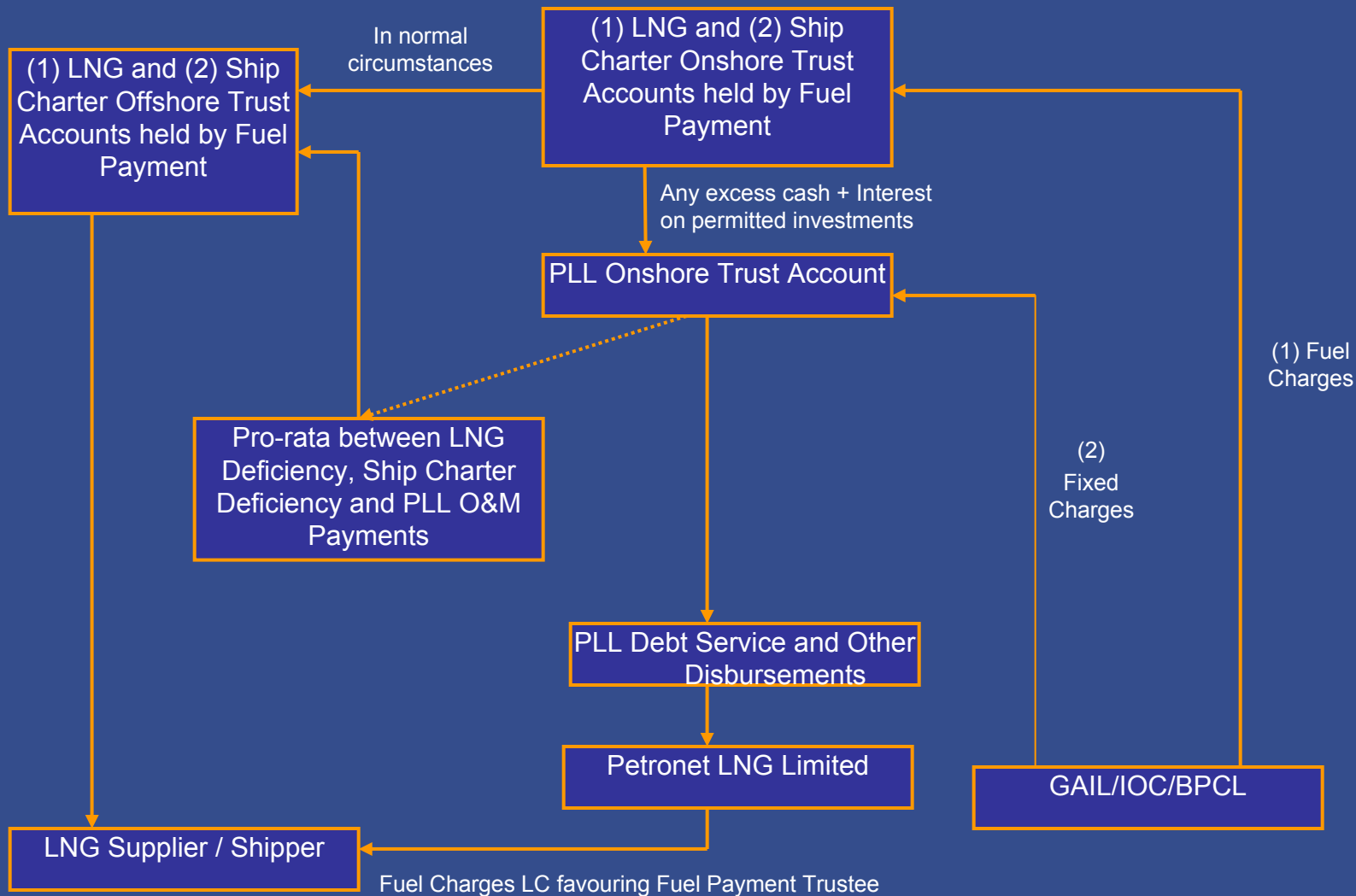
Project Security

- Typical Project Finance Security
 - Customary Forms:
 - Mortgage
 - Hypothecation, pledge
 - Assignment
 - Alternative Forms:
 - Non-Disposal Undertaking
 - Hypothecation of debts, rights & privileges

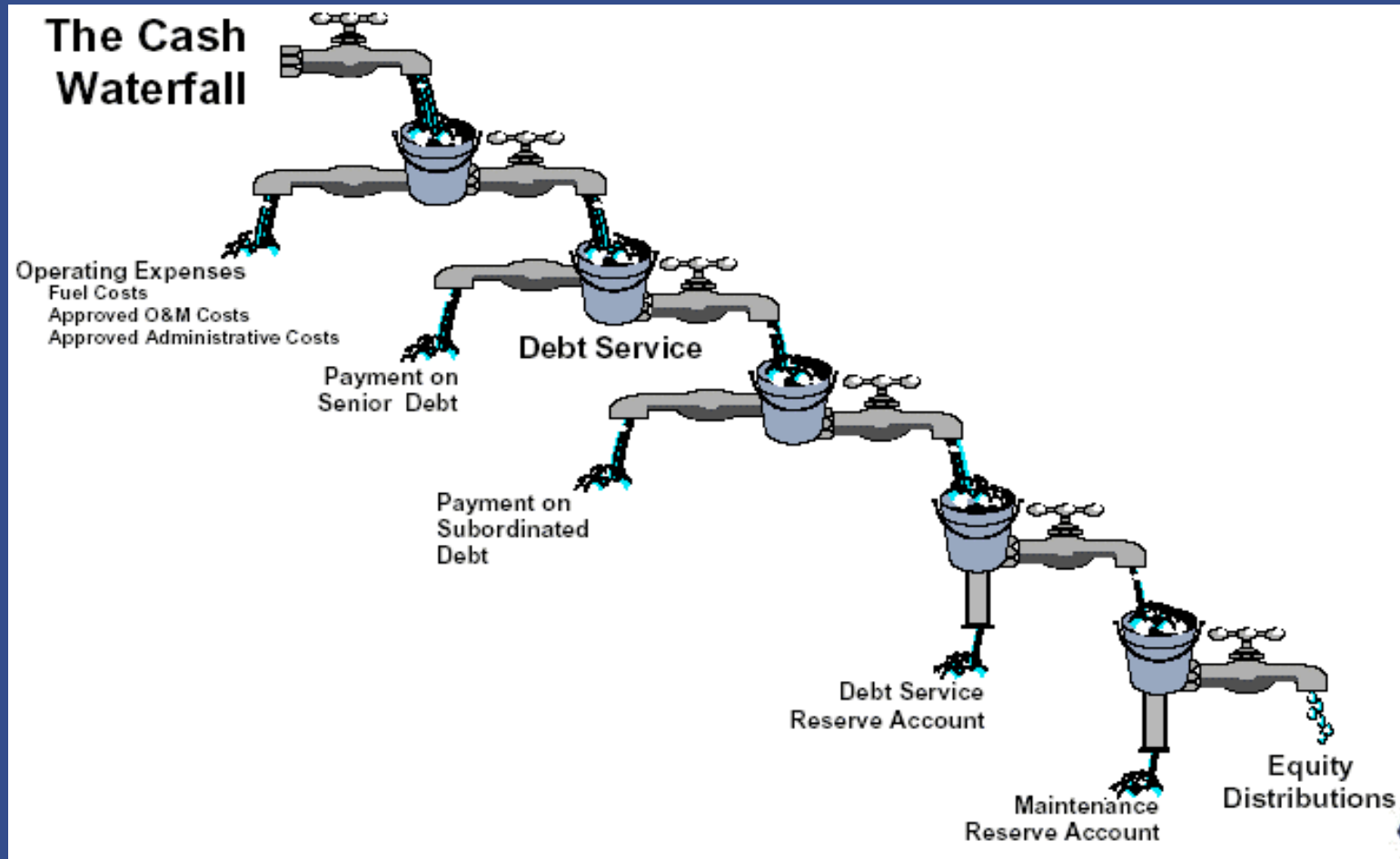
Payment Security

- Control over cash flow of the Project through TRA mechanism:
 - Avoids leakage
 - Acts as risk mitigant
- Separate Trust & Retention Accounts - first for routing cash flows in respect of Fuel Payment (i.e LNG and charter hire payments) and second for all other cash flows (including debt service).
 - Important to define clear waterfall mechanism by prioritizing various payments.

Fuel Payment Security Structure Petronet LNG



Petronet LNG – Debt Service Waterfall



THANK YOU

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