



Duferco utilizes SCF to its advantage

Duferco – revolving collateralized credit

MLAs:	Deutsche Bank, UFJ Bank
Borrower:	Duferco La Louviere Sales, Belgium
Amount:	€80 million
Margin:	1.65% p.a over Libor
Purpose:	Financing of up to 80% of Duferco's inventory
Tenor:	364 days
Broker:	Texel Finance, London
Legal Advisers:	Lovells London & Altius Brussels

Bringing structured commodity finance (SCF) techniques to meet the requirements of OECD producers and traders is particularly innovative. This €80 million revolving collateralized credit facility for Duferco La Louviere Sales in Belgium does just that – provide innovation.

The deal, with a tenor of 364 days, is structured as a tolling facility and was arranged by Deutsche Bank (Amsterdam) and UFJ Bank, who also acted as joint bookrunners. Deutsche is also facility and collateral agent. Co-arrangers on the deal were: Bayerische Landesbank; BCEN – Eurobank; Commerzbank; and RMB International. The purpose of the tolling facility is to finance up to 80% of the borrower's inventory, held at the production sites of Duferco in Belgium and in three independent port warehouses in Ghent and Antwerp. For Duferco, the deal is the first time a tolling structure has been used by the company, and its the first time a syndicated structured commodity finance facility has been combined with an asset backed securitization programme. The tolling facility improves the quality of security available to the lenders and allows lenders to increase the advance rate.

Says Kris Van Broekhoven, vice president, global trade finance at Deutsche Bank: “The real challenge with the structure of this transaction was to link it with the asset backed securitization programme Duferco was setting up for its production plants in Belgium. This was only possible with

a sophisticated borrower and a great amount of team work.”

At London-based brokers Texel Finance, William Shaw comments: “The deal is outstanding because of a number of complexities and refinements, and is particularly interesting as an example of how structured commodity finance (SCF) can be utilized in a Western European environment as opposed to an emerging market. By bringing in SCF expertise into a Western European credit, where traditionally such facilities are provided by commodity trade finance relationship banks, it was possible to establish new liquidity and a more creative and effective solution to the needs of the borrower. At a time when emerging market prices are falling anyway, it makes every sense to utilize this expertise in an OECD country within a more transparent and comfortable legal environment.” He adds: “This is the first deal of its type to really illustrate this point.”

In syndication the deal was oversubscribed, although this was not taken up by Duferco. And importantly, new lenders were brought in. The facility is available for short-term advances of up to 120 days. Advances are made available against presentation of a borrowing base report, which calculates the inventory value. Remarks Boris Jaquet, vice president, global trade finance at Deutsche Bank: “Despite the limited timeframe allowed for syndication, the complexity of the structure and the impressive number of existing banking relationships of Duferco Group, the joint bookrunners managed to successfully sell the transaction to new lenders. The oversubscription of the syndication clearly shows that with the combination of structural innovation and a deep understanding of the investor market, new and inventive funding routes can be explored.”

Repayment takes place using proceeds under a new five year asset backed securitization programme led by Bayerische Hypo- und Vereinsbank. Proceeds due as a result of sales of receivables into this programme are assigned to the lenders and collected in a pledged collection account. The collection account is held with Deutsche in Brussels to give the borrower access to electronic banking facilities and minimize costs for international payments. ■