'Downgrade will not impact fund raising plans'

Lenders have carried out independent assessment and are convinced: Essar Steel Vice-Chairman

INTERVIEW

Suresh P. Iyengar
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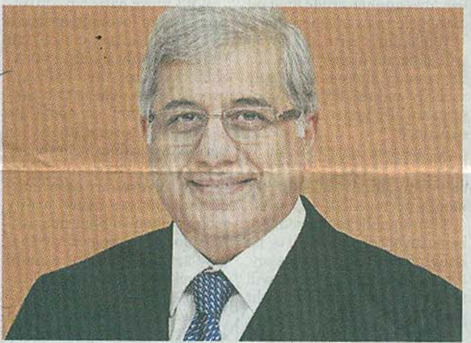
The steel industry is going through one of its most challenging times. With slowing demand and rising production costs, companies are reworking their strategy to stay afloat. Fluctuation in the rupee value has added to steel companies' woes as they peg their selling price to the international markets. Most companies have invested heavily in expansion programmes and were caught unawares when the economy slowed.

Against this backdrop, Essar Steel, a leading integrated steel producer, was recently downgraded to 'default' by Care Rating.

"The downgrade by the rating agency was quite surprising given the fact that the company has been servicing its lenders promptly," said Firdose Vandrevala, Executive Vice-Chairman, Essar Steel in an interview with *Business Line*. Excerpts:



The company has drawn up a well-defined turnaround plan to improve operations and liquidity position. — **Firdose Vandrevala, Executive Vice-Chairman, Essar Steel**

What was the reason for Care Rating downgrading the Group's rating?

The downgrading of instruments and facilities by Care was triggered by our last year's balance sheet. Since then there have been a lot of positive developments. We are extremely disappointed with the downgrade and the timing especially when we are about to take off with many expansion plans. We have represented our case strongly to the agency for re-assessment and are hopeful of a positive outcome.

Will this have an impact on fund raising programme?

The downgrade does not impair our fund-raising plan. The lenders have carried out an independent assessment of our requirement and are convinced with it. Essar Steel has drawn up a well-defined turnaround plan based on a set of measures to improve the operations and liquidity position.

What are the measures being taken?

We have taken many measures including time-bound completion of ongoing projects, ramping up of production and improved EBIDTA (earning before interest, depreciation, tax and amortisation) by focusing on selling more value-added products. We also have a multi-pronged strategy on the financial side to reduce interest outgo. Corporate governance across the group has been strengthened to trim expenses.

Is the process of converting rupee loans into dollar complete?

The refinancing of rupee debt to the extent of $1 billion has already been done through external commercial borrowing.

We have received Reserve Bank approval for conversion of another $2-billion rupee loan into dollar through export advance. The refinancing of rupee debt is expected to save about 4.5 per cent in interest cost. We are progressing well on our loan conversion plans.

Will the downgrade impact your Rs 6,000-crore debt raising plan?

The downgrade does not impact this debt. Essar Steel is a standard asset in the books of the lenders. The company plans to infuse Rs 9,700-crore into the company. Of the total fund infusion, we will raise Rs 6,000 crore through loan, promoters will contribute Rs 1,600 crore and sale of assets with dedicated service agreement will yield another Rs 2,100 crore. The promoters have invested their committed amount in the company. This, along with our plans to convert rupee loan into dollar, will lower finance costs and increase loan tenure.

What is your total debt and how much of it is in dollars?

We have a long-term debt of Rs 26,000 crore. The rating agency's concern on the leverage is unsubstantiated. The debt per tonne is well below and among the lowest in the industry. While our debt per tonne stands at Rs 31,000, the new capacities under implementation are in the range of Rs 55,000-60,000 per tonne. The Essar plant has high end value-added investments of 1.5 million tonnes per annum Plate Mill and 0.6-mtpa Pipe Mill going on stream soon. Even with investment in additional facility, the debt level will not change significantly, considering the repayment planned as per the schedule during the year.

Last fiscal, Essar Steel incurred a net loss of Rs 2,785 crore. Is there a turnaround in the last two quarters of this fiscal?

We have a number of projects coming on stream by end of next year. Hence, our performance will improve significantly. The completion of iron ore beneficiation plant and slurry pipe line in Odisha will reduce our production cost significantly as we will be able to use low-cost iron ore at our plants. Second phase of pellet plant will double our pellet capacity to 12 mtpa in Odisha. Our total pellet capacity will go up to 20 mtpa including the Vizag unit. With these projects, we expect significant improvement in our EBIDTA at Rs 6,000-7,000 crore in FY'15.

How has the steel demand been this year?

The steel demand growth has been modest at three per cent. However, Essar Steel has a wide range of products. Thus, we have the flexibility to vary product mix to suit market demand and maximise returns. Our capacity utilisation will touch six million tonnes from next month.

Have raw material prices come down?

Raw material prices have not come down significantly in the international market. But Essar Steel has taken up measures to bring down its raw material costs — both iron ore and power costs. The completion of iron ore beneficiation plant and slurry pipe line in Odisha will bring down our cost of oxides to a competitive level.

The beneficiated ore is transported through a slurry pipe line and pellets are loaded to a ship through conveyor belt at Paradeep Port where we have a dedicated berth. Thus, the complete automation of transportation saves significant cost on transportation. We now have access to power from the National Grid, besides the 270-MW coal-based power plant in Hazira. We have addressed the cost of iron ore and power, which are the critical inputs in steel making.

suresh.iyengar@thehindu.co.in