Steel Companies Seek Comprehensive Package to Counter Debt

Faced with a staggering debt of over Rs 3 lakh crore, domestic steelmakers sought a comprehensive steel package from the government, including a one-year moratorium on payment of interest and principal amounts.

"The moratorium will be a short-term measure that will help ensure continued operations of the steel industry while the various remedial measures are put in place and produce sufficient positive impact. It will be necessary step to see that a large part of the debt of steel companies does not become NPA," representatives of the India Steel Association (ISA) said in a presentation to steel secretary Aruna Sundararajan.

JSPL chairman Naveen Jindal, Essar Group's CEO Prashant Ruia and SAIL's director, finance, Anil Chaudhray were among others who were present in the meeting along with ISA office bearers. Detailing a programme to reduce the industry's debt burden, the industry captains said "Sustainable portion of the same must be deemed to consist of long-term debt, as well

as working capital required to run the business at optimum capacity level and to generate a pre-determined debt service coverage ratio (DSCR).

The remaining debt, which could be termed as the balance debt, is proposed to be repaid over an extended period by converting it into redeemable preference shares, with a nominal coupon rate, say 0.01%."

Steel firms said that taking into account the impact of various measures initiated by the government, a realistic assessment of profit generation ability of the steel companies from their operations could be made. Based on projected EBITDA and rescheduling tenor of loans linked to the useful life of the assets, under the 5/25 scheme, a sustainable level of debt to be ascertained. Also, all debt irrespective of project loan or corporate or any other loan should be eligible for 5/25. "Since the companies are expected to generate sufficient cash flows to meet the DSCR requirements of say 1.2 times, the repayment of sustainable debt would be made on periodic basis as per the revised amortisation terms based on the useful life of the assets," ISA said.

The redemption of the redeemable preference shares (RPS), which could be done equally over a specified period, could be linked to the surplus cash flows of the company after servicing the sustainable debt, meeting internal working capital margin and critical capital expenditure requirements.

"In case of insufficient cash flows during a particular year from operations, redemption amount of the RPS will correspondingly get reduced and the balance commitment towards RPS for the year will be written-off by banks in their books," it said.

Auto Industry Fears Steel Import Curbs would Hamper Manufacturing Operations

Some of the top players in India's automotive industry are worried about the government's decision to ban production, storage and sale of steel without Bureau of Indian Standards (BIS) certification, a step that they fear would hurt, even halt, their manufacturing operations.

The ban, which will take effect on March 15, though is seen by the steel industry as the most effective move so far to curb steel imports, which have been on the rise at the cost of local producers. While the compulsory BIS certification is good news for the steel industry, it is not so for auto makers. Car makers currently import high tensile automotive steel from Japan and Korea for production of critical components, top sources in the auto industry said. If the steel ministry's order to make BIS certification compulsory, production will come to a stop across the passenger vehicle industry, they claimed

"The auto industry uses its own proprietary technology to certify its vehicles and chooses the appropriate steel for such certification. BIS standards are much more relaxed than the international standards of Japanese and Korean manufacturers, where the auto industry is mostly importing from," said a senior executive at a leading car maker, who did not want to be named.

"This order will adversely affect manufacturing in the country." Though no official numbers are available on the import of automotive steel, industry estimates suggest at least 20% of steel used by passenger vehicle manufacturers come in from Japan and Korea. Some industry experts say steel similar to what these companies import is available locally, and the auto makers are trying to protect their long¬term contracts with foreign steelmakers.

Vishnu Mathur, Director General of the Society of Indian Automobile Manblock ufactures, however, said even if the technology is available; the volume of imported autograde steel is low and does not justify local production.

"Currently, the industry has inventory for a month or so. But if the government does not remove the requirement or extends the time for certification, production across the PV (passenger vehicle) industry will stop. It's not about the quantity imported. The fact is even if one small part is unavailable, manufacturing will be affected," he said.

Vinnie Mehta, Director General of the Automotive Component Manufacturers' Association, echoed the sentiment.

"Over 70% of the cost of a component is raw material, which is largely steel. Even if we were to take BIS certification for imported steel, which is of higher quality, it is a time consuming process. It cannot be completed within three months the government issued the order in December," said Mehta.

BIS certification involves a visit of Indian government officials to steel mills overseas to certify their products and processes. This usually takes 6¬12 months, Mehta said.