

# Essar Steel struggling to execute plan to improve financial health

**D**ebt-laden Essar Steel India Ltd. is seeing early signs of a turnaround but is yet to conclude its plans to bring in a new investor and continues to negotiate with banks to complete the refinancing of its debt.

The steel maker, which has been classified as a non-performing asset by a few lenders, had in November last year put out a comprehensive plan to improve its operations and financials. But the plan is still a work in progress.

“Essar Steel’s lenders have approved loans worth Rs.14, 500 crores under the (5/25 refinancing) scheme. The company has requested the lenders for covering the balance Rs.15, 000 crores for which lenders have sought clarification from Reserve Bank of India (RBI) and the same is awaited,” said a spokesperson for Essar Steel.

The RBI guidelines allow refinancing under the 5/25 scheme only for term loans of infrastructure company and working capital loans cannot be refinanced under the scheme. It is not yet clear what part of Essar Steel’s remaining Rs.15, 000 crore in loans falls in the working capital category. Stress on Essar Steel has been building up for the last three years. Steel makers have been hit by sluggish domestic and global demand, along with a recent surge in cheaper imports.

But things are looking positive, according to the company. “Production has doubled since November and is currently operating at 70% capacity utilization. This has resulted in significant improvement in EBIDTA margin which has improved to 18%-20% from 5% in November last year,” said the company. Since Essar Steel is a private company, the financial details are not disclosed to the exchanges. EBIDTA margins are measure of company’s operating profitability.

The release added with the company has achieved an operational turnaround through improved production, sales and marketing and cost improvements.

But the turnaround has not been quick enough to prevent the company from being tagged as a non-performing asset (NPA) in the books of some banks.

“We are generally standard, but there are a few banks where technically we have been made an NPA because of the guidelines



issued by the RBI. Otherwise, by and large, the account in standard”, said Jatinder Mehra, director, Essar Steel India Ltd in an interview, adding that the account was labelled as non-performing in the quarter ended December 2015.

On whether more banks will follow suit, Mehra said, “right now we cannot say, because we are discussing that issue with the banks.” In November, the company had outlined a comprehensive plan which included a sale and leaseback of certain assets, 5/25 refinancing, equity infusion and roping in a strategic investor. Of this, the plan to sell and lease back assets has hit a RBI hurdle.

“The RBI has recently issued general guidelines governing sale and lease back transactions by corporates which effectively restricts the corporates from undertaking monetization of assets through this mechanism. The company is therefore evaluating alternative mechanism,” the company said in its email response. As part of the turnaround plan, the promoters of the company had infused Rs.1, 500 crore equity and another Rs.1, 500 crore is pending. The company said, “Promoters have agreed to infuse the remaining Rs.1, 500 crore and it will be brought in after consulting its lenders.”

In addition, the steel maker is also on the look-out for an investor, according to a person familiar with the matter. “We are about to start the sale process. It is currently under works. We have been sending out feelers to investors and strategics. The sale will depend on what kind of interest we end up generating as steel sector in general is undergoing lot of pressure which is why it is taking time to launch the process,” said the person requesting anonymity.

Mehra said bringing in an investor is one of the many options under consideration but declined to share further details. In November, the company had appointed ICICI Securities and SBI Capital Markets as advisors to help identify and induct strategic or financial investors.

Finding an investor in the current market may be difficult. “We are not really witnessing any transactions in the steel sector as it is facing a glut at this point in time. There is no significant movement in deals unless domestic buyers try and conclude something. But going forward we might see some activity in those cases where SDR (strategic debt restructuring) has been enforced by banks,” said Pramod Kumar, managing director of Barclays Capital India. Kumar was not commenting specifically on Essar Steel.