



Vedanta announces capacity expansion

Shortly after acquiring ESL, Vedanta announced capacity expansion of the Bokaro plant in phases, with an investment of \$4 bn, according to media report.

After its foray into the steel business, Vedanta has set its sights on being among the top three-four steel makers in India, planning to expand its steel capacity to 10 MTPA from the present 1.5 MTPA in the next five to six years. The natural resources major acquired Electrosteel Steels (ESL), a primary producer of steel and downstream value-added products, for Rs 5,320 crore in June last year. ESL has a greenfield steel plant with a capacity of 1.5 MTPA near Bokaro in Jharkhand state.

Venturing into the steel sector through these inorganic route entailed quite a struggle for the company, with the acquisition of the debt-ridden ESL materialising only after protracted battles in bankruptcy courts.

Shortly after acquiring ESL, Vedanta announced capacity expansion of the Bokaro plant in phases, with an investment of \$3-4 bn. But ESL needed to make a turnaround before any capacity expansion could take place. And this was achieved through operational and commercial initiatives and rebranding of products.

The company posted an Ebitda of \$130-140 per tonne at the end of the last fiscal, as against \$65 per tonne at the time of the acquisition. Production stood at around 1.2 MT at the end of FY2018-19, posting 17% year-on-year growth. Focussing on a more profitable product mix, the steel maker has recently launched a rebranded steel portfolio that includes TMT bars, wire



rods, ductile iron pipes, billets and pig irons.

The report quoting Pankaj Malhan, deputy chief executive officer, ESL said that the turnaround was achieved through tactical and strategic initiatives. "The tactical initiatives were aimed at operational excellence, commercial excellence, debottlenecking and

employee focus, whereas the strategic initiatives targeted new product development, leadership in chosen segments and leveraging of group synergies."

The production ramp-up plan would entail ESL's capacity being doubled to 3 MTPA in the next two years, with an investment of around Rs 4,000-5,000 crore. The second phase of the plan may see the capacity of the Jharkhand plant being upped to 6 MTPA. To further increase capacity to 10 MTPA, the group could go for greenfield projects or acquisitions. For greenfield projects, sites in West Bengal and South India are on the company's radar.

Significantly, the country's major steel makers showed great interest in large steel assets that have gone under the hammer under the Insolvency and Bankruptcy Code (IBC). While Tata Steel acquired Bhushan Steel, the Sajjan Jindal-promoted JSW Steel has made a successful Rs 19,300-crore bid for Bhushan Power & Steel (BPSL).

Steel makers are ramping up capacity given the growth in consumption that the coming years are likely to witness. India's per capita consumption of steel stands at a mere 69 kg, as against the global average of 214 kg. Huge investments would see the per capita consumption go up to 160 kg by 2030, the Economic Survey 2018-19 said.

SAIL EBITDA to remain at INR 5600 - Edelweiss

Edelweiss said that Steel Authority of India Limited's (SAIL) relative performance is likely to remain subdued with expected EBITDA per tonne is likely to remain at INR 5,600 through to FY21.

According to a report, SAIL's Q1FY20 EBITDA of INR 16 billion surpassed consensus on lower-than-expected cost. Blended realisation fell 6% YoY to INR 45,614

Sales volume was flat (down 21% QoQ) at 3.25 million tonne Interest cost rose 4% YoY to INR 7.8 billion. Going ahead, we expect EBITDA per tonne to be constrained at INR 5,600 on an average owing to Further weakening of realisation

Sustained high proportion of semis until SMS 3 at Durgapur plant ramps up. Furthermore, we expect muted volume ramp-up and the 16

million tonne saleable steel production in FY20 to be challenging amidst inventory build-up and curtailing production.

High cash commitments amidst operating headwinds - Despite management guiding for debt to stay below INR 440 billion, as of Q1FY20 end it stands at INR 485 billion the highest-ever level for SAIL.