

Global mergers and acquisitions

The ideal way to make headway in production

The steel industry has been witness to some mega deals recently through mergers and acquisitions, with Mittal Steel reaching the pinnacle in steel production across the globe, while others have only been too keen to followed suit. The foremost reason for this strategy is to increase commercial production capacity within the stipulated time period with minimum investment. The latest to join the bandwagon is Tata Steel which bought out Rawmet Ferrous Industries, an unlisted Kolkata-based ferro alloys player, for an undisclosed amount. Rawmet has a ferro alloy plant near Cuttack consisting of two 16.5 MVA semi closed electric arc furnace having the production capacity of around 50,000 tonnes of high carbon ferro chrome per annum. The agreement was signed in Bhubaneswar by Tata Steel and representatives of IMR Metallurgical Resources, which holds a 66.46% equity stake in Rawmet. Officials of Rawmet Commodities, which holds 12.48% equity stake, were also present during the occasions. Rawmet Ferrous Industries is planning to set up a ferro alloy plant along with a waste-based power plant and a coke oven battery at Anantapur village in Cuttack district. The development of the facility will be implemented in four phases. The total cost of the entire project is projected to be Rs 326.50 crore.

Mittal bagged Arcelor :

Arcelor SA accepted India-born L N Mittal group's takeover bid with improved quoting by 10% to 25.9 billion euros (\$32.4 billion), thus creating the world's largest steel entity. This acquisition positioned Mittal Steel as the largest steel producer in the world with about 10 per cent of total steel production worldwide. Arcelor had entered into a strategic tie-up Severstal which was perceived to be as a last ditch effort to thwart Mittal's bid, which ultimately proved unsuccessful. The final decision preferring Mittal to Russian steel giant Severstal was taken after a marathon meeting of the Board at the company's headquarters. The merger created the world's largest steelmaker, to be called Arcelor-Mittal, with annual production capacity of more than 110 million tons per annum.

While the combined company will control 10 percent of the world's steel production, it's not a monopoly by any means, commented experts. Geographically, the companies don't overlap nor do they compete with each other; prior to this deal Mittal didn't have a presence in Europe, where Arcelor was essentially concentrated. About 150 of the plant's nearly 2,500 workers took voluntary layoffs up to a month. They could be called back if needed. Mittal officials estimate the outage will cost the company 250,000 tons of iron-making, nearly a month's work. The loss should be covered by insurance.

Monnet ispat plans acquisitions in Africa, East Europe :

Monnet Ispat and Energy Ltd plans to acquire mines in Africa and Eastern Europe in the current financial year. Monnet is open to buying steel plants abroad and may also issue an initial public offer of its shares for its upcoming Orissa power plant. As of now, the company has no overseas steel plants. Several Indian steel companies are scanning their radar for overseas acquisitions for securing raw material sources, which are scarce in the subcontinent. In 2005-06, the Monnet group had acquired an abandoned manganese ore mine in Zambia. However, the Zambia unit is yet to start operations in the absence of logistical linkages and power supplies. Once this unit starts operations, Monnet plans to build a ferro-manganese unit of 100,000 tons in the African country at a cost of Rs 100 crore. Monnet will build a 300-megawatt power plant at Angul, Orissa, at a cost of around 12 billion rupees through a special purpose vehicle. The group planned to start construction of the first phase of the 300 MW by end of 2006 and launch commercial operations by March 2009. The first phase of the project is funded through a combination of debt and equity in a ratio of 70:30. The equity component of 3.5 billion rupees will be either partially or fully-subscribed by the Monnet group.



JVSL acquires three companies :

Jindal Vijayanagar Steel (JVSL) acquired Euro Coke and Energy Pvt Ltd, Euro Ikon Iron & Steel Pvt Ltd and JSW Power Ltd (JPL) by way of a merger between the company. JVSL, the country's third largest integrated steel plant, has also expanded its board by inducting three additional directors. According to the scheme of arrangement, shareholders of Euro Ikon will be allotted one equity share of JVSL of Rs 10 each for every 16 shares of Rs 10 they hold. Shareholders of Euro Coke will get one equity share of JVSL of Rs 10 each for 19 equity shares of Rs 10 each held by them, and shareholders of JPL will be allotted one JVSL equity share for 25 equity shares they hold. The appointed date for the merger was April 1, 2005. The scheme is subject to necessary approvals. The acquisition of the three companies was based on the recommendations JVSL's consultants, RSM & Co and ICICI Securities. The company is in the process of expanding its capacity to 3.8 MTPA from 2.5 MTPA by March 2006 and the merger is in line with this strategy.

Jindal Stainless plans overseas acquisitions :

Jindal has said recently that he has identified South East Asia and the Eastern Bloc nations for possible acquisitions. The company acquired a cold rolling unit in Indonesia in 2004 with a capacity of 50,000 tonne per annum (tpa). The unit is currently operating slightly below capacity. It has been facing difficulties due to high raw material prices. Parakh said the Indonesian unit should be able to make a small net profit in 2006-07. Jindal Stainless will invest between Rs 1,500-1,800 crore in 2006-07 as capital expenditure towards brownfield and greenfield expansion in Orissa and Haryana. Of this, Rs 400-450 crore will be spent on expanding Hisar unit to 7,20,000 tons of hot rolled capacity from 550,000 tons now. Expansion worth Rs 1,000 crore is expected to be complete by March 2008. The remaining Rs 1,000-1,200 crore will be invested in the company's upcoming facility in Orissa. The Orissa unit, which will house a ferro chrome unit, coke oven plant and a captive power plant will cost Rs 3,200 crore. Ferro chrome operations have already started while the other units will be operational by December 2007, he added. The company plans to borrow around Rs 400-500 crore from the markets to fund the expansion. Last year it borrowed Rs 1,100 crore. Besides setting up the US-based subsidiary, Jindal plans to start operations at its two other subsidiaries in UK and Dubai in the next six months. The company also plans more subsidiaries in Europe, which will report to the UK unit. These

lower level units are likely to be in Italy and Russia. The company currently imports nickel and metal scrap from overseas. In India, the company has secured shareholders approval to hive off its architectural and lifestyle divisions into separate companies. The process of de-merger is expected to be complete in 2007.

Tata and Corus :

In addition to Tata Steel's present bid for Corus, the largest private sector steel producer in India has made a mark and consolidated its presence in the foreign land, through acquisition his latest one's being in Indonesia . In case of Corus, only time will tell whether Tata Steel would succeed or not, but in other endeavors the company has already succeeded in acquiring some steel plants. Tata Steel, the country's largest private sector steel company, was in talks with Anglo American of South Africa to acquire its 79 per cent stake in Highveld Steel. While the Highveld acquisition is still going through the evaluation process. According to analysts, if the acquisition of Highveld Steel goes through to completion, Tata Steel's production capacity will go up to 6 million tonne from the current level of 5 million tonne. Highveld, the largest vanadium producer in the world, manufactures steel, vanadium products, ferro-alloys, carbonaceous products and metal containers and closures. Analysts observe a clear trend in Tata Steel's plans to expand capacities. But Highveld was not supposed to be the first global acquisition for Tata Steel.

In February 2005, the company completed the acquisition of Singapore's largest steel company, NatSteel Asia, which has a two-million tonne steel capacity with presence across Singapore, Thailand, China, Malaysia, Vietnam, the Philippines and Australia. As per the deal, the enterprise value of NatSteel Asia was pegged at Rs 1,313 crore. Tata Steel has plans to establish steel manufacturing units in Iran and Bangladesh too. With a stated vision to become a 20-25 million tonne company by 2015, the company has also signed a few joint ventures and announced organic expansion plans.

Conclusion :

With Indian global and multinationals coming to India, some more global acquisitions may be seen in the steel sector in the near future. India is now ready to exploit the full potential of its available iron ore reserves as use as a leverage to position itself very smartly on the world's Industrial map and thereby in the global economy.

