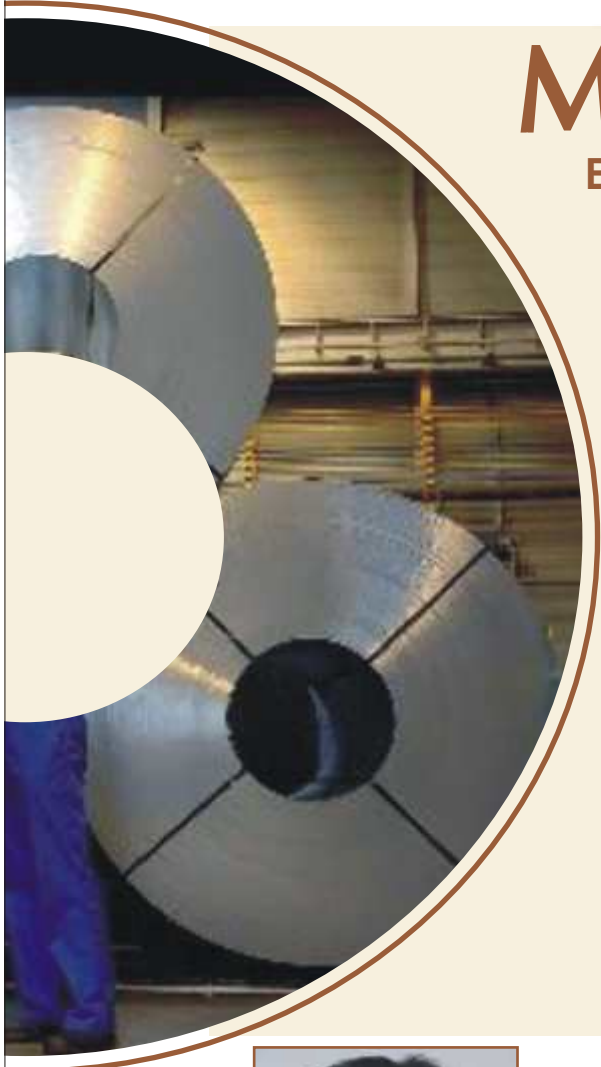


Mittal enters India

Becomes co-promoter of Uttam Galva Steels Ltd.

- Steelworld Research Team



Rajinder Miglani
CMD
Uttam Galva Steels Ltd



Lakshmi N. Mittal
Chairman and CEO
ArcelorMittal

In a deal that paves the way for ArcelorMittal to enter into Indian steel space, the world's largest steel producer has acquired 5.6 percent stake in galvanised steel producer Uttam Galva at Rs 120 per share. Further, ArcelorMittal has also issued an open offer at the same price for acquiring 29.4 percent stake at a total consideration of Rs 422.71 crore in the company from secondary market. If open offer

becomes successful, ArcelorMittal will have 35 percent stake in the company and Miglani's will be left with 40 percent. In case, it becomes unsuccessful then promoters will shed their holding further to bring ArcelorMittal to the level of 22.5 percent. Thus, both partners will hold equal share in the company with similar representation on the board. Post stake sales, ArcelorMittal will be a co-promoter of the company.



Ankit Miglani
Director (Commercial)
Uttam Galva Steels Ltd.

“The deal with the world's largest steel producer ArcelorMittal will give us technology access along with assured raw material supplies”

Win-win for both

The deal is a win-win situation for both. Since Uttam Galva, the family run business of Miglanis, requires both technology upgradation and uninterrupted supply of hot rolled coils, the raw material for cold rolled coil and galvanised steel manufacturing, which ArcelorMittal can provide comfortably. Talking to 'Steelworld', Ankit Miglani, Director (Commercial) of Uttam Galva, said, “The deal with the world's largest steel producer ArcelorMittal will give us technology access along with assured raw material supplies.”

The Rs 4,500-crore Uttam Galva will enter new segments like specialised steel production for automobiles and white goods. At present, the company specialises in processing hot-rolled

coils into cold-rolled coils and further into galvanised and colour-coated coils. “The deal will get us the Midas touch of the Mittals”, Miglani said a day after announcing the deal with ArcelorMittal. It makes sense to align the company with a global steel major, as it has technology that Uttam can access.

“No major change in the company is expected. There would be some changes in the board structure”, added Ankit Miglani. There will be joint management and the board will have equal number of directors from both the promoters. The mix would include three directors from the existing promoters and three from the co-promoters. Uttam was unable to achieve full capacity utilisation so far, but that could change now with

ArcelorMittal coming on board. There is, currently, no expansion plan in production capacity from the existing one million tonnes.

It specialises in manufacturing galvanised steel as thin as 0.15 mm super-thin sheets. The company supplies CRCA to the producers of general engineering, automobiles, barrels and drums segment, and white goods. It also supplies galvanised sheets and coils in large quantities to the construction industry. The company's production units are in Khopoli, Maharashtra, and are close to Mumbai and Nhava Sheva ports.

For Miglani, this was as good as backward integration through the inorganic route. With most primary steel producers - Tata Steel, Steel Authority of India Ltd (SAIL), JSW Steel, Essar Steel and Ispat Industries - manufacturing CR and galvanised steel, it was difficult to be a standalone player.

The move would give ArcelorMittal a toehold in the Indian steel market that the company has been trying to enter for a long time.

The pros and cons of the deal

In its 2008 annual report, ArcelorMittal said it has put its merger and acquisition plans on hold to conserve cash. India's attractiveness as a steel market seems to have over ridden that objective. This will be its first major manufacturing base in India. It can use Uttam's facilities to process and distribute its products, even as work continues on its greenfield projects. ArcelorMittal expects developing markets such as India, China, Brazil, Eastern Europe and Turkey to drive demand, especially for value-added products. Sectors such as automobiles, engineering and construction-key buyers of Uttam's products-are all expected to grow in the coming years.

Uttam Galva currently procures

500,000 tonnes of hot-rolled steel from various ArcelorMittal facilities. The deal is neither binding on Uttam Galva nor will it be eligible for any price concession as a result of the co-promotion deal. The main reason for the move is the volatility in prices and inconsistent supplies for value-added grades. The Uttam Galva-ArcelorMittal deal is the second consolidation move in the steel industry in the past month, the first being Essar Steel's acquisition of Shree Precoated.

Uttam's galvanised line, set up last year, was designed for high-end products. For supplies to original equipment manufacturers, the company required a steady source of consistent raw materials, the target being high-grade steel supplies to the automobile and white goods sectors. It has a backward integration project in Orissa, which is in the land acquisition phase, but the project is still far away. So, the co-promotion deal with ArcelorMittal was waiting to happen.

Mandatory offer

According to the agreement, ArcelorMittal will make a mandatory open offer for 20 per cent. Financial institutions hold 39.26 per cent in the company and the remaining shareholding is with the public. The promoters have pledged 67.19 per cent of their shares - up from 39.74

Glance at ArcelorMittal's Journey in India

- ArcelorMittal had planned to invest more than USD 20 billion for its greenfield projects in Jharkhand and Chhattisgarh.
- In 2005, the company had signed an agreement with the Jharkhand Government and had selected the Khuti district of Jharkhand for its plant.
- In 2006, ArcelorMittal signed an agreement with Orissa government of its greenfield project.
- The combined production capacity of projects would be 12 million tonnes.
- Till today, the company has not succeeded in acquiring land and lease of iron ore mines in the states.
- The company has acquired 200 acres of land which is not attached under the deal.
- In September 2009, the company acquired 5.6 percent stake in Uttam Galva.



Glance at Uttam Galva's Journey

- Rajinder Miglani pioneered the Company Uttam Galva Steels Limited in 1985.
- Uttam Galva has crossed several milestones in its journey from a small beginning with 30,000 MT per year of galvanizing capacity in the year 1985 to more than 750,000 MT per year capacity for galvanizing today.
- The CR Steel Galvanizing line at Khopoli, near Mumbai has turned into one of the largest producers of CRCA and Galvanized Steel in India.
- It has gone for backward integration to cold rolling of steel and also for down-stream value addition such as colour-coated products.



per cent in the December quarter. Analysts said this made the Miglani family's position vulnerable and prompted them to okay ArcelorMittal's entry. The company had a consolidated debt of Rs 1,208.59 crore in 2007-08 (the latest such figures available). In March 2009, Uttam Galva's net sales went up to Rs 4,509.70 crore from Rs 3,155 crore in the corresponding period of the previous year. The company's profit dropped to Rs 100.17 crore from Rs 124 crore in the same period.

Under the terms of the agreement, ArcelorMittal Netherlands and the Indian promoters will have the right to nominate an equal number of directors. ArcelorMittal will also enjoy veto rights on a host of matters, the details of which were not disclosed.

ArcelorMittal's greenfield projects in Orissa and Jharkhand were going nowhere owing to regulatory and government hurdles and problems with land acquisition. The company had signed an agreement with the Jharkhand government in 2005 and with the Orissa government in 2006 to set up steel plants with a combined capacity of 12 million tonnes. But, the company is far from acquiring land and away from any lease of iron ore mines in either states. So far, the company has acquired 200 acres of

land which is not attached under the deal.

On answering to the effect on the domestic market due to entry of ArcelorMittal, Ankit Miglani said, "There will be no effect on the domestic market; the market is open for everyone."

Analysts said Uttam Galva would give ArcelorMittal a strong foothold in the western Indian market. The Indian company is the largest cold rolled and galvanized steelmaker in western India with a capacity to produce 750,000 tonnes a year of galvanised steel and 1 million tonnes a year of hot and cold rolled coils at its manufacturing facility at Khopoli in Maharashtra. The company is setting up another facility in the state with an investment of around Rs 9,000 crore.

The company procures hot rolled steel and processes it into cold rolled and further into galvanised and colour coated coils. In galvanised coils, it specialises in making ultra thin sheets, which could be as low as 0.13mm thickness. More than 70 per cent of the company's products are exported to over 142 countries and it has a customer base in many advanced markets such as Australia, France, Germany, Greece, UK and the US. In the Indian market, the company has established itself as a major player of galvanised coils and sheets in the construction industry.

Considering the economic situation, Uttam went on to slow expanding steel capacity this year. But, an investment of Rs 400 crore is proposed into adding value to the existing product mix and doubling the capacity of service centre to 40,000 ton a month. The company's steel service centre, which is engaged in processing the metal, is located close to its plant in Khopoli, Maharashtra, and has a capacity of 20,000 ton at present. Uttam Galva is a secondary steel producer and makes cold rolled and galvanised steel.

The steel demand in India is projected to grow at 5%-8% in the current fiscal year, primarily due to higher investment in infrastructure and growth in automobile sector

Besides, the company is also exploring opportunities for setting up second captive power plant. It is currently in the process of installing a 60 MW captive power plant near its steel plant, which will entail investments of Rs 300 crore. Almost half of the output will be exported to over 40 countries.

It has value-added steel products used in industries such as automobile, consumer durables and electrical equipment. In addition, it also trades in finished steel sold through its service centres. In 2008-09, galvanized steel contributed 49% of its Rs 4,509 crore sales, with cold-rolled coils and colour-coated products contributing 11.4% and 7%, respectively. Sales from its service centres (and others such as scrap) contributed 32.2%. Exports are nearly half its sales.

A reliable raw material supplier

Uttam depends on steel mills for its raw material. In its 2008-09 annual report, it mentions the threat of short supplies, as the global downturn led to steel mills curtailing output in the second half. Moreover, steel mills would want to sell value-added products themselves, rather than let someone else get that margin.

Securing quality raw material supplies is hence a key imperative. ArcelorMittal will be able to provide an assured source of supplies and even broaden Uttam's customer base in India and abroad.

ArcelorMittal group management board member and one of the longest-serving executives at the group, Sudhir Maheswari, outlined a perfect business sense for the company to acquire stake in Indian galvanised steel producer. ArcelorMittal is of course the world's largest primary steel maker but it also has a very strong downstream business activity as well. This is one of the largest downstream players in Europe and in many other parts of the world. So as far as Uttam Galva is concerned, it is very strategic and it is at the core of ArcelorMittal's strategy.

Steel demand to grow 5-8% this year

The steel demand in India is projected to grow at 5%-8% in the current fiscal year, primarily due to higher investment in infrastructure and growth in automobile sector. The government has recently given stimulus packages to improve the steel demand which mainly depends on the infrastructure spending throughout the country.

The government has given three stimulus packages since December 2008 and has announced investment of \$8.95 billion for the current fiscal year (2009-10) to develop infrastructure like networks of road, irrigation, phones and electricity. With the second tenure of Mr. Manmohan Singh as the Prime Minister of India, the expectations of steel manufactures have gone up, who believe that the investment in ports, bridges and roads will spur the demand for steel. Rural employment scheme is likely to create more demand for the metal in villages and towns.



“The demand for steel will be positive and prices will also increase.” Miglani said.

Moreover, the performance of the steel industry largely depends on the country's economic growth, and the stable government at the Centre will give more emphasis to the infrastructure development. Programs announced by the government earlier will be accelerated. Also, the growth in automobile sector will spur the steel demand.

The steel demand significantly slumped during the third quarter of FY 2008-09 ending December 2008, having seen three years of average 15%-20% growth. However, the fourth quarter which ended March 31, 2009 posted an increase of 3.8%

compared to the corresponding quarter previous year i.e. the quarter ending March 31, 2008. The Joint Plant Committee, a data dissemination body under the Central Ministry of Steel, has recently released the steel industry's statistics showing that the steel production stood at 56.4 million tonnes in the year ended March 2009 against the revised output of 56.1 million tonnes in the previous year.

Future prospects

Steel consumption in India is expected to grow considerably in the coming years. Per capita finished steel consumption in the country is estimated at around 44 Kg in 2008-09, which is projected to reach 54 Kg by the end of 2011-12, thereby representing tremendous growth potential in the

coming years. So, it makes perfect sense for ArcelorMittal to benefit from rising steel demand from local sources while it is the best chance to create global fame for Uttam in association with the world leader.

Uttam is not opposed to merger with the world's largest steel producer ArcelorMittal and is open to all options aimed at taking the company to 'new heights'. Talking with 'Steelworld', Uttam Galva Director (Commercial) Ankit Miglani said, "We are not opposed to merger and are open to all options as and when (any such) decision is taken by the joint board". "No decision has been taken as yet and the joint board will decide whatever is the best for the company", he added.



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