

With the acquisition of Hy-Grade Pellets Limited (HGPL) and Steel Corporation of Gujarat Limited (SCGL) Essar Steel Limited has added itself in the list of limited integrated steel producers in India. Now, the company would have control over raw materials, processes, technology and finished products. To become an integrated steel producer a company requires to have the production facility under its portfolio from the beginning to end. It

tonnes per annum pellet plant at Visakhapatnam. The capacity of this plant is being expanded to 7 million tonnes

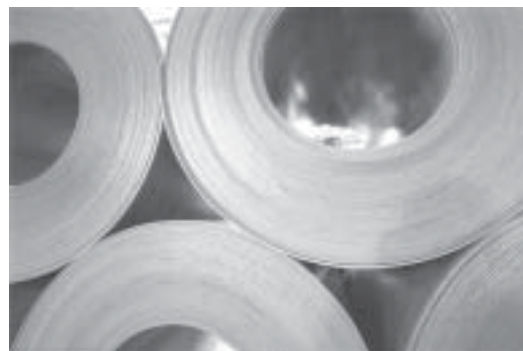
SCGL's acquisition is expected to result in considerable value addition across the chain and a more diversified product range. The acquisition will bring in 1.2 million tones of cold rolling capacity in to Essar Steel, making it one of India's largest producers of cold rolled products. The

and de-bottlenecking. The capacity enhancement is expected to cost approximately Rs.2000 crore.

Activities

A contract for construction of an iron ore slurry pipeline from Bailadila to Vishakhapatnam was signed between Hy-Grade Pellets Ltd, a Joint Venture of Stemcor of the U.K., now a subsidiary of Essar Group, and Essar Group and Stroytransgaz's consortium

Essar Steel - New integrated steel producer



means the company should have the production facility of all components required for steel making. Consequent to the deal both the companies are now the full-fledged subsidiaries of the Essar Steel. The acquisition of HGPL and SCPL were completed at a cost of US\$450 million (approximately Rs.1950 crore) and funded through equity by way of issuance of Compulsorily Convertible Preference Shares as approved by shareholders and regulatory authorities.

Benefits of the acquisition

The acquisition of HGPL will bring in benefits of high quality raw material and considerably better yields in steel making. HGPL operates a 4 million

company is confident that these will provide a much wider market penetration capability and offers a hedge against cyclicity in domestic and international markets.

Essar until now has only been a hot rolled coil producer. SCGL will bring cold rolled steel, and galvanized steel to Essar's product basket. These products fetch over \$200 more than hot rolled coils.

Expansion

Essar Steel has already finalized plans to increase steel making capacity to 4.6 million tonnes per annum by the second quarter of 2006 through addition of equipment, technology up-gradation, productivity improvements

with Essar Constructions Ltd. The 8 million tonne - 267 K.M. pipeline will transport iron ore in slurry from Bailadila mines in Chattisgarh state to Hy-Grade's Pellet plant at Vishakhapatnam replacing the present rail movement. In the signing ceremony recently, Mr Leonid V. Bokhanovskiy, First Vice President, Stroytransgaz, Mr V N Paradkar, Executive Director & CEO, ECL and Mr. K V Rao, Managing Director, Hy-Grade Pellets Ltd. participated. Mr. K V Rao, Managing Director, Hy-Grade Pellets Ltd said "the company hopes to save transportation cost of Rs.300 per tonne with the completion of the project. "Stroytransgaz will send specialists and supply special machinery / equipment

for the implementation of the pipeline project. Zakhem Group of Lebanon are the EPC Contractors." Mr. Matthew G. Stock, Director, Hy-Grade Pellets Ltd said "The finalization of the pipe laying contract with Stroytransgaz will allow the construction to commence in January 2003 and will be completed in 18 months. With the completion of this project Hy-Grade will emerge as one of the world's lowest cost producers of high quality D.R. iron ore pellets." The Essar Group founded by the Ruia family is headed by entrepreneur-industrialist Shashi Ruia and Vice Chairman Mr Ravi Ruia. Essar, a US\$ 3.66 billion Corporation, is in core sector businesses like Telecom, Power, Shipping, Project Construction, Steel and Oil. Stemcor of U.K. is a leading international steel and raw material trading group with offices in over 30 countries. Stroytransgaz, is one of the biggest Russian Construction Corporations and world's major pipeline specialist company, is partnering with Essar Constructions Ltd, a leading EPC Contractor to execute cross country pipelines in India and the Middle East. From pipelines to ports, from industrial projects to intelligent buildings, and on to canals, townships, highways, bridges and breakwaters- Essar Constructions Ltd. (ECL) has a rich and varied track record as a premier construction company. In fact, over the last 30 years, we have poured enough concrete to build a road that would circle the earth thrice.

As a leader - several firsts

As one of India's leading

engineering, procurement and construction (EPC) contractors, Essar has executed projects worth over US\$ 3 bn (Rs.14,000 crore) and are currently implementing projects worth US\$ 2.5 bn (Rs.11,625 crore). The Group skilfully brings together hundreds of engineers and tens of thousands of workers to complete its projects, always maintaining an uncompromising focus on quality and



safety. Setting high benchmarks, the Group has consistently broken new ground and achieved a long list of firsts. For example, it built the world's largest gas-based sponge iron plant, was the first Indian company to set up an independent power plant, pioneered the laying of offshore oil and gas pipelines in India and built India's first and longest island breakwater.

A history of expertise

The Group honed its skills as the turnkey contractor for most of the Essar Group's world-class projects and supporting infrastructure, constructing

most of the group's current asset base of US\$ 4.4 bn (Rs.200 billion). That includes a 3.4 MTPA sponge iron plant, a 2.4 MTPA steel mill and a 515 MW power plant at Hazira, a 4 MTPA pelletisation plant in Visakhapatnam, a cold rolling mill in Indonesia and a 10.5 MTPA oil refinery under construction at Vadinar, Gujarat. Indeed, the very origin of the Essar Group was in specialised marine construction. As the Group acquired a truly wide and solid base of experience in major areas of industrial and infrastructure construction, it evolved from being the Group's projects division into Essar Projects Ltd. in 1990 and then into ECL.

Special strengths

Simultaneously, the Group grew into a leading EPC contractor for other customers, both domestic and international. Here too, both exposure and expertise of the Group are wide ranging. Apart from EPC capability in oil and gas, power and steel, marine construction is one of its special strengths. The Group has a unique capacity for underwater rock blasting and dredging. It also has significant skills in constructing irrigation canals, siphons and bridges. ECL has a special expertise in pipelines for oil, gas and water as the only Indian company with over 20 years of experience in cross-country, onshore and offshore pipelines, from construction to commissioning. The Group has laid 2,500 km of pipelines and built 150 km of the prestigious Narmada canal. The Group is well equipped for

infrastructure construction particularly in the areas of ports, jetties and roads; it has built hundreds of kilometres of roads, including national and state highways and expressways.

Equally noteworthy are its long-term relationships with over 20 strategic partners, including multinational construction and engineering companies from around the world. For example, currently a consortium of ECL, Strostransgaz of Russia is the EPC contractor for the 269 KM Bailadilla-Vizag slurry pipeline. This is world's second longest slurry pipeline. Along with UEM of Malaysia, it is also building a 200-km, four-lane highway in Karnataka worth US\$ 156 m (Rs. 720 crore).

Performance

Essar Steel Limited (ESTL) posted a total income (net of excise) of Rs.1926.64 crore for the quarter ended March 31, 2005 compared to Rs.1227.11 crore for the corresponding period of the previous year, registering a growth of 57%. EBIDTA for the quarter stood at Rs.699.49 cr (Rs. 285.66 cr) a growth of 145%. The net profit was Rs. 272.78 crore (Rs.98.02 crore in the corresponding period of the previous year), a growth of 178% after providing for finance costs of Rs.147.73 crore (Rs72.11 crore), depreciation of Rs.98.46 crore (Rs. 95.99 crore) and Provision for Deferred Tax and Tax of Rs.181.38 crore (Rs.55.35 cr). Total

Income (net of excise) for the year 2004-05 grew by 65% to 6121.27 cr as compared to Rs. 3717.65 cr last year. The EBIDTA rose by 157% to Rs. 2204.08 cr (Rs.859.21 cr). After providing for interest of Rs.550.73 cr (397.68 cr), depreciation of Rs. 394.29 cr (Rs.403.27cr) and Provision for Deferred Tax and Tax of Rs.203.95 cr (Rs. 34.08 cr), Net Profit stood at Rs. 590.15 cr (Rs. 59.99 cr).

HR coil production for the quarter ended March 31, 2005 period grew by 35%, to 6.89 lakh tonnes (5.09 lakh tonnes). HR coil production for the year ended March 31, 2005 period grew by 20% to 23.24 lakh tonnes (19.32 lakh tonnes). The

bottlenecking, at a cost of Rs.2000crore. This expansion is expected to be completed by the second quarter of 2006. The company's thrust on adding value and flexibility in its product mix continued.

Marketing

Total domestic sales during the quarter registered a growth of 16% at 4.29 lakh tonnes (3.7 lakh tonnes). Exports during the quarter are up by 58% at 2.55 lakh tonnes (1.62 lakh tonnes). Total domestic sales for the year showed a growth of 16.5% at 14.77 lakh tonnes (12.68 lakh tonnes). Exports during the year were up by 20% at 7.88 lakh tonnes (6.55

lakh tonnes).

The company's concentration on value addition and customization helped grow revenues and increase market penetration. Introduction of HR Pickled and Oiled (HRPO) coils, shot blasted and painted plates were among the new product

introductions during the year. Essar Steel is the only company in the industry to have its downstream facility adjacent to the hot strip mill, resulting in considerable savings in cost and throughput time.



commissioning of the fourth module of HBI during the year, will meet the increased requirements of raw material, enabling the company to increase its HRC capacity to 3 million tonnes per annum. The company has finalized plans to augment the capacity to 4.6 million tones per annum through technology up-gradation, productivity improvements and de-

