

## Electrosteel Steels Ltd

### Growth potential

Promoted by Electrosteel Castings Ltd (ECL), Electrosteel Steels Ltd (EIL) was setup to put together a 2.2 MTPA Integrated Steel and Ductile Iron Spun Pipes project in Jharkhand, India. The company want to raise money via the public issue to set up the proposed plant near Siyaljori village in Bokaro District of Jharkhand. ECL is one of the leading manufacturers of Cast Iron pipes for over four decades and has been engaged in the manufacture of Ductile Iron Spun Pipes for the last 15 years.

**Rationale:** The proceeds from the initial public offering will be used to finance the construction of Integrated Steel and DI pipe plant with a capacity of 2.2 MTPA in Jharkhand, as well as general corporate purposes.

**Projects:** The company is setting up the proposed plant near Siyaljori village in Bokaro District of Jharkhand. The plant will be based on Blast Furnace (BF) - Basic Oxygen Furnace (BOF) - Billet Caster and Hot Rolling Route and will produce 1.2 MTPA of long steel products, comprising 0.5 MTPA of 5.5-12.0 mm diameter wire rods in coil form and 0.7 MTPA of reinforcement bars in straight lengths and bundled in the range of 8-32 mm and plain rounds upto 60 mm diameter. The plant will have a 0.33 MTPA DI pipe production facility in the same complex and will be provided with hot metal from the Blast Furnaces. The plant will also have production facilities for 0.27 MTPA of Commercial Billets and 0.40 MTPA of Pig Iron.

**Tie-up with Stemcor MESA DMCC:** EIL has tied-up with Stemcor MESA DMCC for off-shore supply contract, design supply contract, which includes equity investment as well as supply of major equipment. Additionally, the company has also entered into a delivery and marketing agreement for international marketing of our products. Under the agreement Stemcor will buy DI pipes, and long steel products consisting of billets, beam blanks, bars, rods, square and/ or structural steel produced by us for a period of three years from the date of commercial production in a series of regular consignments.

**Outlook:** The positives for the company include a) Integrated operations including captive power plants and railway sidings, b) Raw material linkages for iron ore and coking coal, c) Locational Advantages and d) Low Cost of Production.

#### PRICE BAND

Rs 10-11

#### RATING

SUBSCRIBE

#### IPO Factsheet

Issue opens	21-September-2010
Issue closes	24-September-2010
Price band (Rs)	10-11
*Issue size (Rs bn)	2.5

\*Considering the upper price band

#### Issue details

Particulars	No of shares (mn)
Total issue size	225.52
Non institutional	22.6
QIB portion	135.3
HNI portion	--
Retail Portion	67.65

#### Shareholding pattern

Particulars (%)	Pre-issue	Post-issue
Promoter group	38.70	34
Public	61.3	66



## About Electrosteel Steels

### Business Overview

Promoted by Electrosteel Castings Ltd (ECL) Electrosteel Steels Ltd (EIL) was setup to put together a 2.2 MTPA Integrated Steel and Ductile Iron Spun Pipes project in Jharkhand, India. ECL has obtained mining blocks of iron ore and coking coal in the state of Jharkhand and has set up EIL to implement the integrated steel and DI pipe plant. ECL has been in the business of manufacturing Cast Iron pipes for over four decades. For the fiscal year 2009, ECL recorded consolidated net sales of Rs 19472.25 mn. ECL has four manufacturing facilities, two located at Khardah and Haldia, both in the State of West Bengal, one at Elavur in the State of Tamil Nadu and one Coal washery plant at Parbatpur in the State of Jharkhand.

The company is also setting up a proposed plant near Siyaljori village in Bokaro District of Jharkhand. The company has acquired about 1,723.44 acres of land for the proposed plant, taking into account the scope for future expansion. The total land required for the proposed plant is about 600 acres with another 20-300 acres needed for construction of storage space for materials.

### Overview of the Global Steel Industry

World's crude steel production reached a level of 1,329 mn tonnes in CY 2008. The world crude steel production has grown at a CAGR of 7.9% from 850 mn tonnes in CY 2001 to 1,329 mn tonnes in CY 2008. During the period CY 2001-2007, finished steel consumption has increased from 777 mn tonnes to 1,209 mn tonnes registering a CAGR of 7.6%. Growth in crude steel production was mainly driven by emerging countries such as China and India which registered a CAGR of 18.7% and 10.6%, respectively, during the period CY 2001-2008. On the contrary, developed countries such as the US and Japan have shown a much lower growth in crude steel production at a CAGR of 0.2% and 2.1%, respectively, during the same period.

The current economic downturn has affected the steel industry across the world. In CY 2008, total world crude steel production reached a level of 1,329 mn tonnes, a decline in growth by 1.1% over the previous year. Post the month of August, global crude steel production in each month has registered a negative growth on YoY basis. Asian countries together produced about 749.5 mn tonnes of crude steel, which accounted for about 56.4% of the global crude steel production and registered a negative growth of 0.7% on YoY basis.

During CY 2008, India remained fifth-largest crude steel producer, with production of about 55.1 mn tonnes, registering a growth of 3.7% on YoY basis. During the first eleven months of CY 2009, the total world crude steel production reached a level of 1,088 mn tonnes, a decline of 11% on YoY basis. Among top five steel producing countries, China and India were the only countries which registered a positive growth during this period. The latter half of CY 2009 saw a revival in the industry, in line with a global recovery driven mainly by a healthy demand from the construction and automobiles sectors.

The **Indian Steel industry** has witnessed an unprecedented growth in the past seven years. In the global arena also, India has been able to create a mark for itself. India accounted for about 4.1% of the global crude steel production in CY 2008 and has graduated to the position of the fifth-largest producer of crude steel in the world in CY 2008 from the ninth position in CY 2004.



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