

SteelCo Acquisition

March 2017

Background

- SteelCo is a steel factory in Kerala.
- ✓ Land : 4 acres
- ✓ Induction Furnace Unit:
 - ✓ Induction furnace crucible of 6MT each having 2750 KVA 2 EOT cranes of 10 MT each
 - ✓ Heavy duty Hydraulic Scrap Bundling Machine Scrap Cutting Machine
- ✓ Rolling Mill
 - ✓ 12" Rolling Mill of 2 drives. Main motor 1000HP and second motor of 600 HP.
 - ✓ 8 stands Reheating furnace of 7 MT per hour.
 - ✓ TMT system with all auxiliaries
- ✓ Lab and quality testing equipment
 - ✓ Lab as per BIS standards for TMT steel bars of Fe415 and Fe500 quality
- ✓ Power
 - ✓ Dedicated power line of 11KV (self owned) and power allocation of 4000KVA from sub-station.
 - ✓ Open power purchase arrangement from Power Grid is in place.
- ✓ Raw material availability: scrap steel from South Kerala is available as this unit is the only steel mill in the region and results in transportation cost savings.
- ✓ Market advantage: Being the only steel mill in the region, savings of transportation cost gives price advantage. Network of over 80 dealers.
- ✓ Employees: 100+ under O&M contractor, casual labour, admin, marketing and general management staff.

Acquisition Proposition

- Synergies
 - Additional capacity in a region where new capacity addition is almost impossible
 - Additional market share in Kerala
 - Savings in transportation costs
 - Savings in marketing, general admin expenses etc.
- Opportunity to acquire through leveraged buy-out
 - Attractive return on investment (pls see next slide)

Attractive Return on Investment

Assumptions	
Cost of Production (COP)	90%
Gross Profit Margin	10%

SteelCo annual revenues (based on current capacity & steel prices)	INR 70 Cr
Estimated Gross Profit @ 10%	INR 7 Cr

SteelCo Acquisition price	INR 33 Cr (Debt in the books : INR 10 Cr, Equity purchase : INR 23 Cr)
Sources of funding acquisition (leveraged buy-out)	Debt carried in SteelCo books : INR 10 Cr Take-over financing : INR 20 Cr Promoter's own funds : INR 3 Cr
Cost of borrowed funds (@11% p.a.)	INR 3.3 Cr
Gross Profit – Interest (7.0 – 3.3)	INR 3.7 Cr
Return on Equity of INR 3 Cr	123%

Attractive Return on Investment

<u>Sensitivity to GP Margin</u>	<u>@10%</u>	<u>@8%</u>	<u>@6%</u>
Acquisition Price	33	33	33
Sales	70	70	70
Gross Profit Margin %	10%	8%	6%
Gross Profit	7.00	5.60	4.20
Borrowed funds	30	30	30
Interest @11%	3.30	3.30	3.30
Surplus to equity shareholders	3.70	2.30	0.90
Return on Equity	123%	77%	30%

Thank You