

[PRIVATE EQUITY](#)

June 29, 2011, 01:04 PM IST



Sh

## Apollo To Invest Up To Rs 2,250Cr In Welspun Group

NEWS ANALYSTS

BY MADHAV A. CHANCHANI

**This is the second largest private equity deal of this year and the sixth largest since 2009.**

Private equity major Apollo Global Management is investing up to \$494 million (Rs 2,250 crore) in three companies of BK Goenka-promoted Welspun Group – a \$3 billion group which has diversified interests in various segments, from pipelines to textiles to infrastructure. The deal involves Apollo picking up a significant minority stake in the group's flagship Welspun Corp Ltd (for Rs 1,305 crore) and Welspun Maxsteel Ltd (for Rs 270 crore). Negotiations are still on for another Rs 675 crore investment in the group's infrastructure business Welspun Infratech.



The transaction by Apollo in Welspun Corp is the second largest private equity deal of this year and the sixth largest investment in the country since 2009, according to VCCedge, the financial research platform of VCCircle. The largest deal of this year took place when Bain Capital and Singapore sovereign wealth fund GIC invested \$850 million in Hero Investments & Bahadur Chand Investments to help buy 26 per cent stake in Hero Honda, India's largest two-wheeler manufacturer.

This will be the second major investment in India by Apollo, which has assets under management of \$70 billion. In 2009, buyout major Apollo had picked up 11 per cent stake in Dish TV, the country's largest direct-to-home (DTH) operator, for \$100 million (Rs 465 crore).

The deal with Apollo also involves a restructuring where sponge iron firm Welspun Maxsteel (at present fully and directly owned by the promoters) will become a subsidiary of Welspun Corp. This deal will enable Welspun Corp to become a vertically integrated manufacturer in the oil and gas line-pipe industry. The group has already started consolidation of all its infrastructure businesses under Welspun Infratech, which is also a subsidiary of Welspun Corp.

The Welspun group has earlier attracted private equity investors like ICICI Ventures, Temasek and 3i Group Plc.

“Welspun represents a leading global franchise that operates at the intersection of energy and metals – two of our core verticals – and we are very enthusiastic regarding the prospects of the company,” said Joshua Harris, managing partner and co-founder of Apollo Global.

### Welspun Corp

As part of the transaction, Apollo will invest Rs 1,305 crore into the group's pipe manufacturing business Welspun Corp through convertible debentures and GDRs (Global Depository Receipts). These instruments are being converted/subscribed at Rs 225 per share, 33 per cent premium to Welspun Corp's closing price of Rs 169.20 on June 28. The share price of Welspun Corp closed at Rs 173.9, up 2.78 per cent, after reaching an intra-day high of Rs 178 per share.

Of the total Rs 1,305 crore investment in Welspun Corp, Rs 788 crore will be invested by way of preferential allotment of FCD/CCD (Fully/Compulsorily Convertible Debentures), which will carry a coupon of 5 per cent and will be converted in 18 months. These convertible debentures will translate into 13.3 per cent stake. The rest Rs 517 crore will be invested through non-voting GDRs,

which will also be subscribed at Rs 225 per share.

At Rs 225 per share, Welspun Corp has a pre-money valuation of Rs 4,605 crore and a post-money valuation of Rs 5,910 crore. Its market cap at today's closing price is Rs 3,560 crore. As of March, 2011, the promoter group held 41.07 per cent stake in Welspun Corp and as per the BSE data, it does not hold any convertible share in the firm. After Apollo's fund infusion (which, on conversion of FCD/CCD into shares and not counting the GDRs will account for around 13 per cent stake), promoter holding will dilute to around 36 per cent.

Interestingly, by investing through GDRs and convertible debentures, Apollo has managed not to trigger the open offer. Apollo had also invested in Dish TV through GDRs.

Welspun Corp, earlier known as Welspun Gujarat Stahl Rohren, has reported consolidated revenues of Rs 8,023 crore for FY11, with a profit after tax of Rs 633 crore. The company, whose clients include oil & gas majors like Exxon Mobil and BP, had a pipe-and-plate order book of Rs 6400 crore at the start of FY12. Welspun Corp manufactures line pipes ranging from ½ inch to 100 inches, with a capacity of approximately two million metric tonnes per annum at Dahej and Anjar in Gujarat (India), Little Rock in the USA and the recently commissioned plant in Saudi Arabia.

### **Welspun Maxsteel**

In another leg of the transaction, Welspun Corp and Apollo will also acquire the promoter's stake in Welspun Maxsteel Ltd, which was formed after the acquisition of sponge iron business of Aditya Birla Group's Grasim for Rs 1,030 crore. Welspun Corp will be purchasing 87.5 per cent stake in Welspun Maxsteel for Rs 805 crore while Apollo will take the rest Rs 140 crore. The PE major will also invest another Rs 130 crore for the firm's capital expenditure.

Welspun Maxsteel is one of the largest merchant producers of gas-based, direct-reduced iron (DRI), also called sponge iron. The acquisition of Welspun Maxsteel will help the Welspun Corp address the global volatility in steel prices (with predictable costs increasing its competitiveness) by becoming an integrated player – from iron ore to DRI to plates-and-coils to pipes.

Welspun Maxsteel is also planning to set up a high-end steel slab facility with the capacity of 1.5 million metric tonnes per annum. The company reported a PAT of Rs 10.5 crore, with a total income of Rs 1,091.6 crore during FY10. For the first six months of FY11, Welspun Maxsteel has revenues of Rs 623 crore.

Recently, there have been several intra-group deals where promoters have sold their privately held companies to their listed companies. In May this year, Fortis Healthcare acquired 76 per cent stake in Super Religare Laboratories (SRL), owned by Fortis promoters Malvinder and Shivinder Mohan Singh. Earlier, Piramal Healthcare acquired Indiareit, a real estate fund promoted by its chairman Ajay Piramal. In another transaction last year, Vinod Dham consolidated his group's auto component business by selling the promoter's stake in Amtek India to the flagship firm Amtek Auto.

### **Welspun Infratech**

Apollo is also in talks with Welspun Infratech to invest Rs 675 crore in the form of debt and equity. These funds can be used by the company for project-specific requirements and may also come in the form of line of credit. Incidentally, the group is actively pushing for expansion in the infrastructure space and has completed two acquisitions last year.

Welspun Corp acquired over 61 per cent stake in MSK Projects India Ltd (now Welspun Projects), engaged in the construction of road and water pipelines, for around Rs 400 crore. In December, 2010, Welspun Infra Projects Pvt Ltd, a closely held entity of the group, acquired 35 per cent stake

in Leighton Contractors India Pvt Ltd, the Indian arm of Australia's Leighton International, for Rs 470 crore.

In April this year, Welspun Corp said that it would be consolidating its infrastructure business by merging its promoters' privately held firm Welspun Infra Developers Pvt Ltd with its wholly owned subsidiary Welspun Infratech. Welspun promoters are expected to own 35 per cent stake in Welspun Infratech, pursuant to this transaction.

As of now, Welspun Infra Developers owns 40 per cent of Welspun Infra Projects Pvt Ltd and the latter is buying into Leighton Contractors (India) Pvt Ltd while the balance 60 per cent is held by Welspun Infratech. Leighton India is said to have an order book of a little less than \$1 billion, with interests in oil and gas, pipelines and other infrastructure projects on an EPC basis.

Earlier this year, Welspun Infratech had also roped in Parvez Umrigar as the MD and CEO of the company. Umrigar was the managing director of Gammon Infrastructure Projects Ltd and was instrumental in its growth as one of the key project developers in India.

### PE Players Eye Consolidated Play

As global buyout majors have started investing in India's crowded deal-making space, many of them are closing large deals by investing in a holding company or various diversified businesses of the same promoter group. These investments help in the alignment of interests between investors and promoters, besides diversifying risks in large investments.

Last year, Kohlberg Kravis Roberts (KKR), New Silk Route and Standard Chartered Private Equity invested \$200 million in Bangalore-based Coffee Day Resorts & Hotels Ltd, promoted by V G Siddhartha. The group, best known for its Cafe Coffee Day (CCD) chain, has since expanded into logistics (with the Sical buyout) and furniture business under Daffco.

Top 5 Private Equity Deals In 2011		
Company	Investor	Deal Value (\$ mn)
Bahadur Chand Investments, Hero Investments	Bain Capital, GIC Special Investments	848.86
Soma Enterprise., Three Highway Projects	Morgan Stanley Infrastructure Partners	200
GMR Airports Holding	Standard Chartered PE, Jacob Ballas Capital, JM Financial India Fund	200
Ratnakar Bank	Beacon India, Gaja Capital, HDFC, Norwest, Faering Capital, Samara Capital, Cartica Capital	163
Diligent Power	Warburg Pincus India	150
Data from VCCEdge		

TPG Capital has also backed Chennai-based Shriram group with investments in Shriram Retail Holdings, Shriram Properties and Shriram City Union Finance. TPG also partnered with Shriram Group to buy the debt-ridden Vishal Retail earlier this year.

Analjit Singh's Max India, which has earlier raised funding from Warburg Pincus, has also attracted investors like Goldman Sachs Capital Partners and Temasek. Max India holds investment in life and health insurance, a hospital chain, clinical research firm and other related segments.

Private equity investments in 2011 are set to overtake last year's numbers, both in terms of deal value and volume. According to VCCedge, the calendar year 2010 had witnessed \$8.05 billion of capital invested across 369 private equity and venture capital deals – a jump of 79.5 per cent, to be precise. Till June 27 this calendar year, there have been 235 deals worth \$5.4 billion, with the second half of the year still to go. As the PE deal volume continues to be dominated by growth capital investments, the median transaction size was \$10 million, while the average deal value was \$26 million during 2010.

