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Welspun group to get capital infusion of \$500m from Apollo

Private equity fund Apollo Global Management will invest about USD 500 million in Indian steel pipe manufacturer Welspun group, in the second biggest private equity investment in India this year as firms take advantage of the rapid growth in Asia's third largest economy.

The number of deals by private equity firms is rapidly rising in India, with firms such as 3i Group Plc and Blackstone Group scouting for new investment opportunities, and many others selling their holdings as valuations improve.

India saw 61 private equity buyouts worth USD 3.3 billion in the first half of 2011, up 21.6% from the same period last year. And private equity-backed M&A in the first six months of 2011 was the highest for the first half of any year so far.

Earlier this year, Bain Capital and GIC invested about USD 850 million in Hero Honda .

Shares of Welspun Corp, which supplies steel pipes to top oil companies such as Royal Dutch Shell, Exxon Mobil and BP Plc and is valued at USD 768.5 million, rose more than 5% following the news.

"Welspun is strongly levered to an expected pickup in global demand for...pipes used primarily in oil and gas transportation," Citigroup said in a research note, initiating coverage of the company with a "buy" rating.

"This is borne out by the fact that a number of projects which were earlier put on hold are now being revived, particularly in the US We believe that investments in gas-transportation infrastructure across the globe should also boost pipe demand," Citi said.

High crude prices will also boost growth for oil transmission pipe manufacturers. Welspun's global network, with plants in India, the United States and Saudi Arabia, will allow it to service many projects, Citi said.

Apollo will invest Rs 1,305 crore (USD 289.7 million) in the group's listed entity Welspun Corp through a preferential allotment of convertible debentures and global depository receipts, Welspun said in a statement.

These debentures will be converted to shares in 18 months, taking Apollo's stake in Welspun Corp to 13.3%, a move aimed at boosting its capabilities in the global oil and gas sector.

In an indication that global interest in India's oil and gas sector is rife, energy major BP agreed to buy a 30%-stake in 23 oil and gas blocks from Reliance Industries in a deal valued at USD 7.2 billion in February.

London listed Vedanta Resources earlier agreed to buy a majority stake in India-focused Cairn India for up to USD 9.6 billion.

Apollo will also buy out the founders' holding of another group company, Welspun Maxsteel Ltd, and is in "active discussions" with Welspun Infratech, a unit of Welspun Corp, to invest another Rs 675 crore, it added.

Also watch the accompanying video for the company's press conference.