

PRIVATE EQUITY

Equity infusion

US private equity firm Apollo plans to invest ₹2,250 crore in Welspun group

In one of the largest private equity investments, Apollo Global Management LLC has announced that it would infuse ₹2,250 crore (\$500 million) in Mumbai-based Welspun group. Through a series of structured investments, in the form of convertible debt and equity, the US based-PE firm with \$70 billion under management globally, will take exposure to Welspun's holding and pipe manufacturing company, Welspun Corp Ltd (WCL), as also its steel and infrastructure subsidiaries.

"We believe that this partnership will pave the way for Welspun to continue on its path to become one of the leading line-pipe companies in the world," says B.K. Goenka, chairman, Welspun group. "The fund will be used for our future strategic growth initiatives, as also to acquire assets overseas".

"Welspun represents a leading global franchise that operates at the intersection of energy and metals – two of our core verticals – and we are enthusiastic about the prospects of the company," says Joshua Harris, managing partner and co-founder, Apollo Global Management, for which Welspun will be the second deal in India, after its \$100 million investment in Dish TV in 2009. In fact, it is also the second largest investment by a single PE player in India, after Carlyle put in \$660 million in HDFC Bank in 2007.

Apollo will invest more than two third or ₹1,305 crore in WCL, which makes steel pipes for the oil and gas sector at its 2-million tonne facility in Dahej, Gujarat. Of this, ₹788 crore will be invested by way of a preferential allotment of FCDs, which will carry a coupon rate of 5 per cent and be converted within 18 months into equity shares at ₹225 per share. The remaining ₹517 crore will be invested by way of non-voting GDR, also at a price of



Goenka: growth initiatives

₹255 a share. Subject to the necessary regulatory and statutory approvals, once the FCDs get converted, this will represent 13 per cent stake in WCL. The PE acquisition will not trigger an open offer since the GDRs carry no voting rights. After the dilution, Apollo will hold around one-fifth of the expanded capital of Welspun Corp, while the promoters' stake will reduce to about 30 per cent. Apollo will have two representatives on WCL's board.

A day before the announcement of the deal, WCL's stock closed at ₹169, with a market cap of ₹3,464.5 crore on the Bombay Stock Exchange. Post announcement on 29 June 2011, the stock rallied over 5 per cent before closing at ₹175. WCL's 52-week high was ₹275 (4 October 2010). Its shares have been weighed down after a directive from the market regulator against its promoters for price manipulation in December last year and

Apollo's investment could now lift the blues somewhat.

As a part of the transaction, Apollo and the board of directors of WCL have also agreed to acquire the entire promoter stake in Welspun Maxsteel Ltd (WMSL, was acquired by Goenkas in 2008 for ₹1,020 crore from the Aditya Birla group. WMSL, currently one of the largest gas-based merchant direct reduced iron (DRI) producers in the country, is proposing to expand its downstream production. It is setting up a 1.5 million tpa high-end steel slab facility at its existing site in Alibaug, Maharashtra. Further, it will also put up a captive power plant with a capacity of 330 MW.

Integrating the company

Apollo will buy out 12.5 per cent of the promoters' stake in WMSL for ₹140 crore, while the balance 87.5 per cent held by the promoters will be bought out by the listed entity, WCL, for a total consideration of ₹805 crore. Moreover, Apollo will also invest an additional ₹130 crore for capital expenditure. Analysts say that the promoters' exit from the steel unit will be at nearly three times the investment made at the time of the acquisition. "With this transaction, we will be able to integrate the company further and reduce the number of holdings," says Akhil Jindal, director, corporate affairs, WCL.

Apollo is in discussions with the Welspun group to invest another ₹675 crore (in the form of debt, equity or a combination of the two) in Welspun Infratech Ltd (WITL), a subsidiary of WCL, which offers construction and infrastructure services. The end use of the funds in WITL will be project-specific.

Apart from investing in growth plans, WCL is also planning to use the fund in retiring about ₹500 crore of its debt. The company has debt of around ₹1,500 crore and cash of about ₹1,100 crore. "The fund raised will help Welspun address its funding requirements for its expansion plans, even as it is restructuring the holding pattern of its units," says Manish Laddha, director, Idea 1st Information Services.