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Essar 2.0: Ruias script zero debt, asset-light model

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THE ESSAR GROUP lost two of its crown jewels – Essar Steel and Essar Oil — in 2017. The latter was one of the 12 firms identified by the Reserve Bank of India for initiation of insolvency proceedings due to its high level of debt. The Ruias, promoter of the group also had to sell Essar Oil to Rosneft of Russia to come out of the mountain of debt.

Many had then written off the group. Six years later, however, that seems to be a distant memory as the group looks to bounce back with an asset-light and investor-led business model and emerge as a zero-debt conglomerate.

The lessons from its brush with high debt has clearly been learnt and how. Assets have been sold to pare the debts and the organisation is now being "transformed for the future". Termed Essar 2.0, the Ruia-promoted group's second coming is on the back of low leverage with focus on cash flows and valuations.

The new Essar, according to insiders, is inspired by the private equity model. The group has reorganised its investments into four business verticals - energy, metals & mining, infrastructure & logistics and technology & retail. These verticals, also holding companies, are run by operating partners. The group also has an India focus, against its earlier "overweight" concentration in Europe.

Essar has roped in seasoned professionals such as former MD of Essar Steel J Mehra as operating partner for metals and mining, former GAIL chairman BC Tripathi for strategising its energy vertical, former SAIL chairman Anil Chaudhary for new metals and mining foray and industry veteran Sunil Jain for renewable and energy transition.

The operating companies in each business vertical are headed by an independent CEO reporting to the board. This has resulted in a three-layered organisational structure — the fund leadership, the portfolio management teams with CEOs, and functional heads of operating companies.

NEW ESSAR WITH FRESH IDEAS

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- Essar intends to tap private markets. The group intends to shed its past approach of owning all the assets under the four verticals

"There is a conscious effort to move from growth to valuation, which we term as the transition to the future. All these years the group was focusing on size and scale, but now the focus is to create value. There were no partnerships under phase-I, except for Hutchinson and Vodafone, but the next phase will see the group roping in many partners and investors, while India would continue to be the mainstay," a senior executive with the group said.

In terms of capital, Essar intends to tap private markets. Further, the group intends to shed its past approach of owning all the assets under the four verticals. "The idea is to become asset light, while our past experience and expertise would help us win and execute projects," he added.

Another top official with the group said that a 'robust risk framework' has been set up to ensure that the company's investments are made with a comprehensive understanding of the associated risks. A monitoring committee has also been set up to ensure "sound investment decisions".

At present, Essar has revenues of $15 billion (₹1.2 trillion) and assets under management of $8 billion (₹64,000 crore). Its existing assets include a 10 MTPA refinery in the UK, 15 TCF reserves of hydrocarbons in India and Vietnam and a 1,200 MW power plant in India. Its infra sector assets include a storage terminal in the UK of 3 million m3 capacity and a 20 MTPA port in India, metal and mining sector assets include a major iron ore mine and pellet project in India and the US, technology & services sector assets include global EPC business and IT solutions provider with centres across 35+ countries. The group has also forayed into renewables recently.

> In its efforts to decarbonise steel production, Essar is again foraying into steel manufacturing but using the latest green technologies

Under its 'Transforming for Tomorrow' initiative, Essar Global Fund Limited (EGFL) - set up in 2005 to invest in building and nurturing assets - has identified 'decarbonisation', 'decentralisation' and 'digitisation' as themes for future growth.

According to an internal document, under 'decarbonisation' the group will invest in energy transition, climate smart and sustainable mining. Under 'decentralisation' it will invest in infrastructure and logistics, and under 'digitisation' investments would be in technology and retail, using artificial intelligence for creating distribution networks and platforms.

The conglomerate, under its green energy transition, is gearing to set up a green ammonia plant in India, LNG import facility in Hazira in partnership with ArcelorMittal Nippon Steel India, invest in hydrogen projects, biofuels, green steel manufacturing among others.

"While some of these are in the planning stages, Essar has already commenced operations in some," a top official, who declined to be named, said.

For instance, in February, the group launched an investment programme — Essar Energy Transition (EET) — through which it will invest a total of $3.6 billion in developing a range of low-carbon energy transition projects over the next five years. The investments would be made in the UK and India. Through EET, the group plans to invest $2.4 billion across its sites at Stanlow, between Liverpool and Manchester, and $1.2 billion in India.

In January 2022, Essar formed Vertex Hydrogen, a joint venture with Progressive Energy to build the UK's largest hydrogen hub at the Stanlow Manufacturing Complex. Essar is the majority shareholder in the venture. The initiative was part of a wider global strategy to focus on investing in energy transition through the transformation of existing portfolio companies, and investments in new ventures.

In its efforts to decarbonise steel production, Essar is again foraying into steel manufacturing but using the latest green technologies. The company is also setting up a 4 MTPA flat green steel complex in Saudi Arabia, it is also building an iron ore pellet plant in Odisha, and a pellet project in Minnesota, USA.

As part of its infrastructure & logistics focus, the group is investing in LNG trucking. GreenLine, its LNG-fuelled heavy-trucking logistics business, has already collaborated with firms such as Tata Steel, JK Lakshmi Cement and Nestle among others.

Essar is also foraying into businesses such as green ammonia, green and blue hydrogen, LNG, biofuels and green steel.

According to the group, the earlier "monetisation" programme was part of a broader plan to move on from its old economy business, "future proofing" existing ones, and invest in new ESG-centric businesses.

The reason for the "monetisation" may have been different, but Essar 2.0 seems to be here to stay.

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SCOPE reaffirms its Green Pledge

Pursuant to its endeavours of mitigating climate crisis, Standing Conference of Public Enterprises (SCOPE) in collaboration with GIZ, Germany, organised a programme on 'Climate Action initiatives by Public Sector Enterprises (PSEs) in India', showcasing role of PSEs in reducing carbon footprint, despite operating in hard to abate sectors. Dr Philipp

Ackermann, German Ambassador to India; Gurdeep Singh, CMD, NTPC; Sandeep Kumar Gupta, Chairman, SCOPE and CMD, GAIL; Pawan Kumar, Principal Adviser, DPE; Dr. Julie Reviere, Country Director, GIZ India; Atul Sobti, DG, SCOPE, addressed the event in presence of senior officials from DPE, GIZ, and various PSEs. During the programme, a first-of-its-kind compendium on 'Initiatives towards Building Low-Carbon Economy' and a short film on 'Climate Action and Green Initiatives by PSEs' highlighting endeavours of PSEs were launched. This was followed by signing of a new MoU between SCOPE & GIZ-Germany to develop solutions to achieve sustainable and economic urban and industrial development.