

Asia-Pacific Acquisition Deal of the Year 2007

01/04/2008

Corus: Tata Steel's new buy

The acquisition of Corus by Tata Steel, at an enterprise value of \$13.9 billion, represents the largest outward investment by an Indian company. Corus Group is Europe's second-largest steel producer and the combined entity is the fifth-largest steel producer in the world, with an installed capacity of 28 million tonnes per year. Tata Steel was named the victor following a three-month bidding battle with Brazilian rival CSN.

The acquisition was initially funded by a typical LBO facility containing high-yield subordinated tranches – £3.62 billion (\$7.13 billion) was put in place by Credit Suisse, ABN Amro and Deutsche Bank.

The refinancing, by way of senior non-recourse facilities totalling £3.17 billion was underwritten by Citigroup, ABN Amro and Standard Chartered Bank on 2 April 2007. This refinancing was structured as "senior debt only", which appealed to Tata Steel since it provided the necessary flexibility (prepayment, as and if required) and came at a much-reduced overall financing cost.

The financing package had to be tailored to take into account the challenges represented by Corus as a target – particularly the involvement of the Workers Council enshrined in Dutch law and the key role played by the erstwhile British Steel pension trustees.

Another challenge was obtaining an appropriate base case Ebitda for the financing, because Corus' 'Restoring Success' program had achieved Ebitda savings of £635 million by the end of 2006.

The refinancing facility initially comprised a five-year £1.59 billion A term loan aimed at the relationship banks of Tata Steel and Corus, and a seven-year minimally-amortizing B term loan of £1.5 billion that was due to be syndicated to institutional investors and banks in the US, Europe and Asia. The balance of the acquisition bridge was repaid from an additional equity contribution by Tata Steel/Tata Steel Asia.

However, the bookrunners were cursed with a dose of bad luck when the sub-prime crisis hit as the roadshow began in New York. The £1.5 billion tranche earmarked for the institutional investors had to be restructured to cope with investor nervousness in credit markets in the US and elsewhere.

The B loan debt was originally structured as a seven-year facility priced at 225bp over Libor. However the final deal features three tranches of £500 million each, a 200bp five-year B1 tranche, a 237.5bp six-year B2 tranche, and a 275bp B3 seven-year tranche.

Lenders also received a 75bp fee to ensure that the B loan element repeated the success of the A tranches, which enjoyed a solid take-up. The package also included a £500 million revolving credit facility, an £80 million loan note guarantee facility, and a £500 million multicurrency revolving credit facility.

Despite the difficult market conditions the bookrunners managed to attract strong bank appetite and widened the mandated lead arranger group from three to seven (see the box at the end of this article). At no time were the bookrunners fearful that the deal would not get done, rather they anticipated that they would hold an extra \$100 million or so each on their own books.

In total around \$200 million was taken by US institutional investors, with the rest placed in the bank market.

Since the launch, the deal has been over-subscribed. The deal's success also owes a lot to the strong bank relationships Tata Steel has built over the years. The largest commitment came from the State Bank of India, which committed \$800 million.

The covenants were carefully structured to include cash flow ratios, interest coverage ratios, total net coverage ratio and restrictions on capital expenditure. Some lenders were concerned that the free cash flow covenants and modeling were too tight for comfort, but this was resolved through the inclusion of a provision for equity cures to be used by Tata Steel for cashflow injections or prepayments of principal based on free cashflow.

The combination brings together Tata Steel, a vertically-integrated steel producer with an established and growing presence in India, South East Asia and the Pacific Rim countries, and Corus, Europe's second-largest steel producer, with a high-value added product range and strong positions in automotive, construction and packaging. The combined steel producer will have 84,000 employees across four continents.

Few LBO deals survived the subprime market disruption as effectively as the Corus LBO, principally because it was less leveraged, better structured and underpinned by a compelling strategic rationale.

Tata Steel's Corus acquisition bridge refinancing

Status: Closed 2 April, sub-underwritten August 2007

Description: £3.67 billion loan backing Tata Steel's acquisition of Corus

Bookrunners: ABN Amro; Citigroup; Standard Chartered

Mandated lead arrangers: ABN Amro; Citigroup; Standard Chartered; Deutsche Bank; HSBC; ING; Calyon

Legal counsel to banks: Linklaters

Legal counsel to Tata Steel: Herbert Smith; Stibbe

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