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Essar Oil to acquire group power plant for ₹2,100 crore

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New Delhi, April 22: The debt-laden Essar Oil has decided to buy a 73.99% stake in a power plant owned by Group company Essar Power in which it already holds 26.01%. The stake is expected to be bought at an estimated ₹2,100 crore. Essar Oil reported a loss of ₹1,069 crore in FY13 on revenues of ₹88,578 crore. The firm has a debt of ₹21,000 crore on an estimated net worth of ₹3,500 crore.

The 597 MW power plant, owned by Vadinar Power (VPCL), an Essar Power arm, supplies electricity and steam to the 20 mtpa oil refinery operated by Essar Oil at Vadinar in Gujarat. Essar Power has a debt of about ₹17,000 crore as on September 30, 2013.

The funds for the acquisition will be met through internal accruals, an Essar Oil spokesperson told *FE*. The refiner generated an ebitda of ₹3,042 crore in FY13 and ₹1,800 crore together in Q3FY14 and Q2FY14 but paid ₹1,578 crore by way of interest.

"This transaction is being undertaken solely with a view to limiting the fuel costs. Ultimately we would like to increase the efficiency of the refinery while capitalising on the operational synergy between VPCL and Essar Oil," said a company official.

He added that this will help the company to produce the required power and steam using the economically available fuel and optimise the operations of the power plant thus providing synergy to both the projects.

In addition, Essar Oil hopes to garner additional revenues of ₹180-200 crore a year through the sale of excess electricity of around 110-110 MW at spot prices.

Essar Oil has called an extraordinary general meeting on May 6 to seek shareholders' nod for the transfer of the asset. The enterprise value of VPCL is ₹4,463 crore, and the corresponding value per share works out to ₹29.56. The number of equity shares outstanding is 36.60 crore, and 39.20 crore of preference shares have been issued. VPCL has a debt of ₹2,155 crore as on September 30, 2013.

Essar Oil is expected to post a strong 10% q-o-q improvement in refining margins in Q4FY14. This, together with an 18% drop in y-o-y interest costs, is likely to drive up profits by 34% y-o-y to ₹416 crore, IDFC estimates.