

June 24, 2009

**CARE REAFFIRMS RATINGS TO THE BANK LOAN FACILITIES OF
ESSAR BULK TERMINAL LTD.**

CARE has retained a 'BBB' (Triple B) rating to the Long-term Bank Facilities of Essar Bulk Terminal Limited (EBTL). This rating is applicable for facilities having tenure of more than one year. Instruments with this rating are considered to offer moderate safety for timely servicing of debt obligations. Such instruments carry moderate credit risk. CARE has also retained, a 'PR3' (PR Three) rating to the Short-term Bank Facilities of EBTL. This rating is applicable for facilities having a tenure upto one year. Instruments with this rating would have moderate capacity for timely repayment of short term debt obligations at the time of rating and carry higher credit risk as compared to instruments rated higher.

Instrument	Amount (Rs. crore)	Rating
Long-term Bank Facilities	512	'BBB'
Short-term Bank Facilities	28	'PR3'
Total	540	

Rating Rationale

The ratings factor in Essar group's capability to execute projects in diversified sectors, strong group support and long-term growth outlook for the steel industry. The ratings also take into account the fact that the project is aimed at augmenting existing captive port facilities to support steel capacity expansion plans of the group. Assured revenues in the form of fixed charges from Essar Steel Ltd (ESTL) and Essar Steel (Hazira) Ltd (ESHL) have been viewed as strength of the project.

The ratings are constrained by the factors like the project being in construction phase and delayed commencement of work. The ability of the company to complete the project within projected cost and time so as to start commercial operations by October 1, 2009, absence of sub-lease agreement with Essar Hazira SEZ Developers Ltd. (EHSDL) and the performance of ESTL and ESHL remain key rating sensitivities.

Company Profile

Essar Bulk Terminal Ltd (EBTL), incorporated on Jan.21, 2004, is part of Essar group, which has presence in diverse manufacturing and service sectors like steel, power, shipping, logistics, construction, oil & gas and telecom. EBTL is a wholly owned subsidiary of Essar Shipping & Logistics Ltd (ESLL), which is owned by Essar Global Limited (EGL). The company was set up to provide logistic support to the group's steel capacity expansion plans. EBTL is managed by professional managers, appointed by the sponsors under the directions, guidance and control of the Board.

Essar group has embarked on a programme of capacity expansion at Hazira. Enhanced capacities would entail receipt of raw material and dispatch of steel products in larger quantities. To provide logistic support to handle the increased volumes, EBTL would augment the captive port facilities at Hazira by setting up a new bulk terminal adjacent to the existing jetty.

Essar Group is increasing the capacity of ESTL from 3.75 Million Tonnes Per Annum (MTPA) to 4.6 MTPA, besides installing a new integrated steel plant of 3.9 MTPA in the Hazira SEZ area, to be implemented by ESHL. ESTL currently has a captive 1,080 m. long jetty, which handles all the raw materials and part of the

finished products. However, this berth can only accommodate small vessels due to the depth constraint alongside the berth. With the increased capacity of the steel plant, the requirement of raw material will go up to 24 MT (inclusive of 4 MT of coal and 4 MT of limestone, dolomite). Export of steel will increase to 6 MTPA. The increase in steel capacity would entail rise in cargo handling capacity and servicing of large vessels efficiently. Essar Group, therefore, felt the need to develop a new port for direct berthing of Capesize and Panamax size vessels near the existing port facility of ESTL. EBTL would build, own, operate and maintain the port with a handling capacity of 23 MTPA as a captive port for ESTL and ESHL. The company has not yet commenced revenue operations and the project is under implementation stage.

The total project cost has been estimated at Rs.738.32 crore, which has increased by Rs.35 crore to Rs. 773.50 crore and is proposed to be funded by equity share capital of Rs.261.5 crore and term loans of Rs.512 crore, i.e., at a debt equity ratio of 1.96:1. Axis Bank Ltd has already sanctioned term loans of about Rs.387 crore for the project and State Bank of Bikaner and Jaipur have sanctioned Rs.75 crore and State Bank of Hyderabad have sanctioned Rs.50 crore. There has been equity infusion of Rs.126.57 crore (48.4% of the total equity contribution) by the promoters as on March 31, 2008.

Gujarat Maritime Board (GMB) has granted in-principle approval for the captive jetty. The draft Concession Agreement is pending with GMB for approval.

EBTL has received in-principle approval from Government of Gujarat (GOG) as well as GMB in respect of allotment of land for the proposed project. The company has sought review of land valuation carried out at the district level. The land sub-lease agreement with Essar Hazira SEZ Developers Ltd. (EHSDL) is yet to be signed.

Based on the Draft Construction Contract (CC) with Essar Construction Ltd, the project was estimated to be completed by March 31, 2008. However, there has been a delay in commencement of work. Presently, the dredging, reclamation and berth construction operations are in progress. The project is expected to be completed by July 31, 2009 and commissioning date will be October 2009.

As per the 'Take or Pay' Agreement with ESTL and ESHL, the project revenue stream comprises two main sources: Fixed Charges and Variable Charge/Tonne of cargo handled. ESTL has guaranteed to meet the shortfall, if any, in the fixed amount payable by ESHL.

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