

AvtoVAZ Seeks Loan to Invest in Tomatoes

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AvtoVAZ has decided to hang on to some of its noncore assets, including a subsidiary that is seeking a 1.2 billion ruble (\$38.7 million) loan to build greenhouses for vegetable gardens, Vedomosti has learned.

In late August, Tolyatti City Hall included in its investment plan a project by AvtoVAZ subsidiary AvtoVAZagro. The company plans to spend 1.2 billion rubles in 2011-12 to rebuild a group of greenhouses to grow vegetables.

An AvtoVAZ spokesperson confirmed the project and added that it would be financed through loans.

AvtoVAZagro takes care of all garden areas located at the factory and in the city of Tolyatti, the AvtoVAZ spokesperson said. The company says on its web site that it has a 70-hectare nursery for tree and bush seedlings and a 3-hectare greenhouse for flower and plant

seedlings.

In 2007, AvtoVAZagro was also given responsibility for building a new residential suburb in Tolyatti called Kalina, which would include 590,000 square meters of housing. Before the company could start construction, however, the crisis hit, leaving the carmaker on the edge of bankruptcy and the residential project frozen.

The anti-crisis plan introduced by the carmaker's new senior management, headed by chief executive Igor Komarov, proposed a sell-off of the company's noncore assets. The first stage alone should have brought in 670 million rubles, AvtoVAZ vice president Polina Grishina said.

But AvtoVAZagro did not appear on the list, and Grishina said in early 2010 that the carmaker would hold on to its gardening unit. "We're planning to develop AvtoVAZagro via an entirely different project — growing greenhouse cucumbers and tomatoes," she said. "We think it's a pretty good idea."

Investing in the agricultural sector while attempting to get cash by selling off other non-core assets seems strange, said Aton analyst Yuly Matevosov. Not everything is so sunny with their main business. The company plans to make only 573,000 cars this year, and nearly 700,000 next year. Matevosov said he thought that AvtoVAZagro would only be able to secure the 1.2 billion rubles with a guarantee from AvtoVAZ. The spokesperson for the carmaker categorically denied this.

AvtoVAZagro had revenue of 15.6 million rubles (\$500,000) in the first half of 2010, according to its results to Russian accounting standards. It posted a loss of 2.4 million rubles over the period.

Given the market conditions now, it's impossible to sell off lots of noncore assets at reasonable prices, said Igor Burenkov, AvtoVAZ's public relations director. The assets need to be used with maximum efficiency now, so they don't bring losses to the company, he said. In the future, they could be sold under more preferable conditions.

To date, AvtoVAZ has only managed to sell one building of all the property it has put on the market. The sell-off includes 38 pieces of property, including unfinished construction projects, and stakes in 29 companies.

State Duma Deputy Viktor Semyonov, who is also president of the Greenhouses of Russia association, said turnkey construction of a hectare of greenhouse space costs 1 million to 1.5 million euros (\$1.34 million to \$2.01 million). While by no means a very profitable business, it should be possible to find buyers for such assets, he said.

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