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Cats and Growth at Urals Metal Giant

By Irina Filatova

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When Mill 2000 opens in July, it will be a significant link in the automotive manufacturing supply chain, helping to satisfy localization requirements. **Vladimir Filonov**

MAGNITOGORSK, Chelyabinsk Region — A dark-gray cat with a fluffy white breast and matching paws carefully walks among piles of green and yellow metal beams, paying no attention to workers in white helmets setting up equipment at a new facility of Magnitogorsk Iron & Steel Works, or MMK.

Construction of the new plant — called Mill 2000 — started about a year and a half ago, and the feline will likely depart in three months, along with the builders who have been feeding it, as MMK plans to start the mill, designed to make sheet metal for domestic and foreign carmakers, this summer.

MMK owner and board chairman Viktor Rashnikov shares the cat's apparent feeling of comfort about the plant, saying every visit to the huge facility located on the left bank of the Ural River — the water border between Europe and Asia — is like returning home for him.

"Coming to the plant is a need. It feels like something is wrong if I'm absent for a week. I come, do some paperwork and feel a surge of energy," he told a group of international journalists in his office in Magnitogorsk on Wednesday.

Rashnikov, who started as a common worker at the plant in the late 1960s, said that after Mill 2000 opens in July, MMK will be the sole supplier of high-strength steel in Russia, as local carmakers currently import this type of metal.

Among potential consumers are AvtoVAZ and KamAZ, as well as foreign firms with production in Russia, many of whom have recently signed commitments to produce at least 300,000 vehicles domestically — like Ford, Fiat, General Motors and Volkswagen.

MMK has already provided the companies with test samples of the metal and is expecting good feedback, given that the government is pushing for a high level of localization for carmakers.

Earlier this year, MMK signed an agreement with AvtoVAZ to supply up to 30,000 metric tons of finished steel products per month, covering about 50 percent of the carmaker's needs, up from 40 percent last year.

Rashnikov said starting the new facility, in which MMK had invested about $1.5 billion, would likely result in increasing sales to AvtoVAZ.

AvtoVAZ failed to agree on supply prices with MMK's competitor Severstal, which will now cover only 5 percent of the country's largest automaker's needs, compared with 60 percent last year.

MMK has raised prices by about 20 percent since late December because of growing raw materials prices and increasing demand.

"Raw materials prices are growing at an incredible pace," Rashnikov said. "We would like to set lower prices, but we need to keep a profit margin of at least 15 percent if we want to live and develop."

The domestic market remains a priority for the steelmaker, with local sales accounting for about 70 percent of its total last year.

The company plans to increase output and leverage market growth to maintain the same proportion of domestic sales, Rashnikov said.

Output of finished steel products at the Magnitogorsk facility is planned to grow from 10 million metric tons in 2010 to 13 million metric tons next year, of which 9 million metric tons will be sold domestically.

The company also expects output at its Atakas plant in Turkey to reach 2 million metric tons next year, said Rashnikov, who recently agreed to buy out the stake of his Turkish partner and gain full control of the company.

Rashnikov said Turkey remained one of the strategic markets for MMK abroad because of high demand.

According to Rashnikov, MMK has invested more than $5 billion in the last four years in developing its production site in Magnitogorsk, while investment in the Turkish plant stood at about $2 billion.

With a personal fortune of $11.2 billion, the businessman is ranked 70th on Forbes magazine's world billionaire list.

Rashnikov said MMK was also seeking to increase its self-sufficiency in raw materials, with coking-coal producer Belon covering up to 40 percent of the steelmaker's needs. MMK expects this share to reach 80 percent in the next four to five years.

MMK's integration strategy also includes developing the Prioskolsky iron ore field in the Belgorod region, whose reserves stand at 2 billion metric tons, Rashnikov said.

MMK acquired a majority stake in Belon in 2009 and Rashnikov said the company is interested in further acquisitions. Raspadskaya, once Russia's largest coking-coal supplier, which is 40 percent owned by Evraz Group, could be one of the possible options.

"We're looking at it, but we're not ready to say something specific," Rashnikov said.

Evraz Group said earlier this month that it was considering different options regarding its stake.

Dmitry Smolin, metals and mining analyst at UralSib Capital, said in an e-mailed note that he didn't expect MMK to buy the stake in Raspadskaya, because the steelmaker was "very conservative" in its investment program and "would more likely prefer to develop Belon" or acquire a small or medium-size domestic coal producer that is not publicly traded.

But even if further acquisitions are a vague prospect, there's one thing Rashnikov is sure of — MMK will continue developing and modernizing its production site in Magnitogorsk, meaning that the cat, which finally disappeared under one of the beams, is likely to have several options on a new home.

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