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Mechel Requests Easier Terms On $9Bln Debts

By The Moscow Times

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The country's top producer of coking coal, Mechel, has asked lenders to agree to a further relaxation on the terms on its more than $9 billion debts, several banking sources familiar with the matter said.

Like other Russian miners, Mechel racked up large debts to fund expansion before signs of a growth slowdown in China and stagnation in crisis-hit Europe sent coal and ferrous metals prices tumbling from all-time highs in 2011.

Last year, facing a toxic combination of poor demand and uncertain markets, Mechel put noncore assets up for sale, but its debt has remained stubbornly high.

The miner now wants covenant waivers this year and in 2014, both for itself and for its mining division Mechel Mining, one source said.

"They started discussing restructuring their debt and covenant holidays a while ago," said another source.

The New York-listed coal, iron ore and steel group already renegotiated the terms of a $1 billion loan for the third time in April, the same month it obtained loans from Gazprombank to improve its debt structure.

The company has also asked banks if it can delay the repayment of $500 million from its $1 billion pre-export loan facility to 2015 to 2016, one source said.

Mechel declined comment.

The requests follow state-owned Vneshekonombank's decision in September to lend $2.5 billion to Mechel to develop its ambitious and costly Elga mining project — a loan that matures in 13-1/2 years with a grace period until 2017.

The sources also said Mechel had asked for a relaxation of covenants, one of which states that Mechel's net debt to EBITDA, or earnings before interest, taxes, depreciation and amortization, ratio should not exceed 7.5 in the first half of 2013, while Mechel Mining's should be no more than 4.25.

The firm, whose debt-to-EBITDA ratio was 9.0 in the first quarter, is likely to post lower earnings in the first half due to lower coal prices and flat sales, resulting in an even higher ratio for the period, VTB analyst Alexey Zabotkin said in a note.

Mechel's New York shares, which have lost about 90 percent of their value since early 2011, were yet to open at 1000 GMT, while its less liquid Moscow-listed stock was trading up 0.3 percent.

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