
Fitch assigns Raspadskaya B+ rating

Friday, 26 Jun, 2009

Fitch Ratings has affirmed OJSC Raspadskaya's Long term foreign currency Issuer Default Rating at 'B+' and National Long-term rating at 'A(rus)'. The Outlooks on both ratings are Stable.

Simultaneously Fitch has affirmed Raspadskaya's senior unsecured rating at 'B+' and Short-term IDR at 'B'. The Recovery Rating on the senior unsecured debt is 'RR4'.

The ratings reflect Fitch's opinion that, despite the current recession and mining industry downturn, Raspadskaya's credit profile will remain within the parameters of the current rating. This is because Raspadskaya's low cost base will allow it to maintain a double-digit EBITDAR margin in 2009 despite the negative pricing environment. The company stands out among other Russian coking coal producers, due to its low cash costs of production of USD30.9 per tonne of coal concentrate.

Raspadskaya has one of the highest profitability among CIS metals and mining peers rated by Fitch with a FY08 EBITDAR margin of 72.8%. It is the second-largest coking coal producer by volume in Russia, with substantial coking coal reserves. Fitch also notes that the company has started diversifying its client base by introducing export sales and serving mid-sized customers. The share of export sales in Q109 was 26%, with a potential to increase for the rest of 2009.

Constraints on the ratings include concentration of sales as the company's customers

1. Large metallurgical holding companies such as MMK ('BB'/B'/Stable), Evraz Group SA ('BB'/B'/Rating Watch Negative) and NLMK ('BB+/'B'/Stable)
2. Accounted for 65% of total sales volume in 2008 and 56% in 2007. Fitch notes that deterioration in the operating and financial performance of these large customers can have a significant impact on Raspadskaya
3. Consequently its credit profile

Raspadskaya has limited scale of operations, which could constrain operational and financial flexibility, particularly in an industry downturn. Fitch notes that unlike many other mining companies it rates, such as Rio Tinto ('BBB+/'F2'/Rating Watch Positive) and Anglo American ('A-'/'F2'/Negative) which have wide product diversification, Raspadskaya's operations are entirely in coking coal production. Therefore, the company is exposed to fluctuations in coking coal prices and volumes, particularly in the current weak economic environment. Fitch also notes that Raspadskaya continues to be involved in significant related-party transactions with its 40% shareholder, Evraz Group SA. In FY08, the total amount of sales to related parties was USD 360 million and receivables from third parties were USD 57 million.

As a result of the recent economic downturn, Fitch forecasts Raspadskaya's 2009 sales volumes to be 15% to 20% below those of 2008. Fitch also expects revenue to fall by 70% to 80% due to the negative price environment. The agency estimates 2009 gross debt/EBITDAR at 2.8x-3.0x, net debt/EBITDAR at 1.0x-1.3x and EBITDA/interest coverage at 4.5-5.6x. Fitch is comfortable that Raspadskaya's net leverage will not exceed the eurobond covenant of net debt/EBITDA 3.0x.

The Stable Outlook reflects Raspadskaya's satisfactory liquidity position. At FY08, Raspadskaya had cash and cash equivalents at USD 186.6 million versus expected short-term maturities of USD 49.9 million. Fitch expects that cash flow from operations and free cash flow in 2009 will remain positive at 40% to 50% and 25% to 30% of revenue respectively.

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