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# The Acquisition of Essar Steel: A Strategic Analysis

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**ABSTRACT:** This paper presents a strategic analysis of the acquisition of Essar Steel by the consortium of ArcelorMittal and Nippon Steel under India's Insolvency and Bankruptcy Code (IBC). Essar Steel, once a key player in the Indian steel sector, fell into insolvency due to high debt, weak financial governance, and unfavourable market conditions. The resolution of its debt through the IBC framework marked a significant milestone in India's corporate restructuring history. This study evaluates the implications of the acquisition on promoters, acquiring entities, creditors, employees, and the wider steel industry. The paper emphasizes the importance of regulatory reforms, foreign direct investment (FDI), and structured insolvency frameworks in turning around distressed industrial assets.

**KEYWORDS:** Essar Steel, Insolvency and Bankruptcy Code, ArcelorMittal, Nippon Steel, strategic acquisition, corporate insolvency, restructuring.

## I. INTRODUCTION

### A. Background of Essar Steel

Essar Steel, established in 1976 by the Ruia family, evolved into one of India's foremost integrated steel producers. Operating a technologically advanced steel plant in Hazira, Gujarat, the company had an annual production capacity of 10 million tonnes per annum (MTPA). Over the years, Essar expanded rapidly, driven by high-risk debt financing strategies. Despite its state-of-the-art facilities and strong market presence, the company's financial model proved unsustainable, especially amidst global steel market fluctuations.

### B. The Ruia Family and Their Business Empire

The Ruia family controlled the diversified Essar Group, which had operations across energy, telecommunications, infrastructure, and metals. Essar Steel was the flagship entity of the group. The family operated through Essar Global Fund Limited, based overseas. However, aggressive expansion, over-leveraging, and ineffective risk management significantly weakened the group's financial standing, ultimately culminating in the insolvency of Essar Steel.

### C. Causes of Decline and Insolvency

Several interlinked factors contributed to Essar Steel's financial collapse:

- **Excessive Debt:** The company's borrowings exceeded ₹49,000 crore, resulting in massive interest obligations and repayment pressure.
- **Industry Headwinds:** A global steel glut, falling prices, and low domestic demand eroded profitability.
- **Delayed Projects:** Multiple expansion projects experienced cost overruns and timeline delays, further straining finances.
- **Liquidity Crunch:** Weak internal cash flows and limited refinancing options led to defaults in loan repayments.
- **Regulatory Push:** The RBI's directive in 2017 identified Essar Steel among the first 12 defaulters for resolution under the IBC.

### D. Strategic Interest in the Asset

Despite the financial distress, Essar Steel remained attractive to investors due to its advanced production infrastructure, port connectivity, and long-term demand prospects. ArcelorMittal and Nippon Steel, both global steel giants, viewed the acquisition as a strategic opportunity to solidify their presence in the growing Indian market. The IBC resolution mechanism allowed these companies to bid for the asset through a transparent and structured legal framework.





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### II. IMPACT OF THE ACQUISITION

#### A. Impact on the Promoters – The Ruia Family

The Ruia family ultimately lost control of Essar Steel after failing to settle their outstanding obligations within the prescribed IBC framework. Despite a last-minute attempt to repay dues, their proposal was rejected in favor of ArcelorMittal's higher and legally compliant bid. The family's equity in Essar Steel was entirely extinguished, resulting in a complete financial exit. Nonetheless, through monetization of other group assets, the Ruia family managed to meet some of their wider financial commitments, enabling the partial stabilization of the broader Essar Group.

#### B. Impact on ArcelorMittal-Nippon Steel India (AM/NS India)

The acquisition provided ArcelorMittal and Nippon Steel with a high-quality manufacturing facility and a strategic base in India, one of the fastest-growing steel markets globally. The Hazira plant offered port access, proximity to key raw materials, and a skilled labor base. AM/NS India gained a fully integrated production setup and initiated plans to raise capacity from 10 MTPA to 15 MTPA. The acquisition diversified ArcelorMittal's risk exposure, reducing its dependence on slow-growth European markets and aligning its portfolio with Asia's growth trajectory.

#### C. Impact on the Indian Steel Market

The resolution and revival of Essar Steel had far-reaching implications for India's steel industry. Firstly, it restored confidence in the IBC's effectiveness in handling large insolvencies. Secondly, the presence of a globally reputed player like AM/NS India intensified competition, particularly for incumbents such as Tata Steel and JSW Steel. Thirdly, the transaction signaled India's openness to global strategic investments, enhancing its reputation as an attractive destination for FDI in core industries.

#### D. Impact on Banks and Financial Creditors

The acquisition enabled financial creditors—including State Bank of India, ICICI Bank, and Edelweiss—to recover a substantial portion of their dues. The resolution plan, worth approximately ₹42,000 crore, was one of the largest NPA recoveries under the IBC framework. This helped banks clean up their balance sheets and reallocate capital to more productive sectors. Furthermore, the case set a precedent for time-bound and structured insolvency resolution in India's banking system.

#### E. Impact on Employees and Vendors

The transaction safeguarded thousands of direct and indirect jobs associated with Essar Steel. Employees benefitted from stable ownership, new investment inflows, and a renewed focus on efficiency and operational excellence. Suppliers and vendors, who had been affected by delayed payments during Essar's financial crisis, regained confidence due to the credibility and financial strength of the new promoters. The revival of operations also provided downstream benefits to logistics, ancillary industries, and local economies.

### III. FINDINGS

The study of the Essar Steel acquisition underlines several critical insights:

- The IBC framework can enable swift and efficient resolution of large industrial NPAs.
- Strategic international players view distressed Indian assets as viable long-term opportunities.
- Creditors' rights and interests can be safeguarded through robust legal processes.
- Sectoral stability and investor confidence improve significantly following transparent resolution mechanisms.
- Employment continuity and supply chain restoration are feasible outcomes even in large insolvency cases.

### IV. CONCLUSION

The acquisition of Essar Steel by ArcelorMittal and Nippon Steel represents a landmark event in India's corporate restructuring ecosystem. It showcased the practical efficacy of the IBC in resolving high-value insolvency cases and re-establishing financial discipline within the corporate sector. For AM/NS India, the acquisition was a strategic masterstroke, granting immediate access to India's expanding infrastructure and manufacturing demand. The transaction was also a win for creditors and employees, who saw resolution rather than liquidation. Going forward,



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India's ability to resolve such high-stake cases through institutional and legal mechanisms will be vital in attracting global capital, enhancing competitiveness, and driving industrial renewal.

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