FT BIG READ. MANUFACTURING

A steel magnate spinning many plates

In the space of a few years, Sanjeev Gupta has gone from being a commodities trader to one of the biggest industrialists in the UK. But financing pressures may prevent his grand ambitions from being fulfilled.

By Michael Pooler

In between the Corinthian columns and ornate gold leaf moulding, Sanjeev Gupta was looking to make a statement. The British businessman had chosen the opulent setting of Goldsmiths' Hall in the City of London to celebrate the 25th anniversary of Liberty House, the company he founded and owns.

A trader of commodities for most of his adult life, Mr Gupta had enjoyed a successful, if unremarkable career. But the event in March last year was designed to project his rising status.

By snapping up a number unwanted or failing steelworks and assorted metal-bashers, Liberty House had put itself on the map of British manufacturing. Its hitherto unknown executive chairman was on a path to becoming one of the country's biggest industrialists — and an international force.

In little over three years, through a series of acquisitions, the Indian-born entrepreneur has built an empire that stretches across five continents, with more than $15bn in annual turnover and 14,000 employees. Assets include steel mills in northern England, a French wheel manufacturer, a coal mine in Australia and an estate in the foothills of Ben Nevis, the UK's highest mountain.

Under the banner of the GFG Alliance, a collection of businesses that includes other Gupta family companies, the activities span mining, metals, renewable energy, engineering, property and finance. Mr Gupta, who has been hailed as a saviour of industry, has even become one of the largest private landowners in Britain.

"Anybody can say things, anybody can do things, but our actions in terms of how many businesses we've bought and turned around . . . To me, that all speaks [for] itself," he said in an interview with the Financial Times.

Yet the sheer size and opacity of the GFG network has sown some scepticism among bankers and rivals, who point to Mr Gupta's tendency towards grandiose promises. He has pledged investments this year of at least $14bn, stretching from North American steel to reviving Australia's automotive industry with electric vehicle production.

The rapid expansion has also left many London metals traders and industry figures wondering how the charismatic entrepreneur is funding the endless flow of deals.

One of those sources of capital became clearer when a Swiss asset management company was plunged into scandal this summer. Zurich-based GAM is returning billions of dollars to clients after suspending a star fund manager, who had invested in bonds linked to GFG companies, over potential breaches of due diligence practices and company rules. There is no suggestion of wrongdoing by GFG or Mr Gupta.

With a major investor seemingly unlikely to buy more GFG debt, it raises the question of whether Mr Gupta risks running out of financial firepower to fulfil his grand ambitions — or indeed if his business model is built to last.

"He's mercurial in some ways, and in other ways maverick," said one person who has had dealings with Mr Gupta. "He thinks laterally, and sometimes that's exploring the art of the possible."

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>
> Former employee

Virtuous loop

In the autumn of 2015, Britain's steel industry was staring into the abyss. As thousands of workers were laid off and factories closed following a collapse in global prices for the metal, Mr Gupta made a contrarian bet — by reopening a steel rolling mill in south Wales.

For more than a year, Liberty House kept about 130 employees on half pay and allowed them to find work elsewhere before it restarted the unit.

"Everybody asks the obvious question: is the guy crazy?" said Haydn Swidenbank, a former manager at the mill who has seen the Newport facility pass through the hands of Greek, Iranian and Russian owners over two decades. "He had a dream. He knows in his own head where he's going and it becomes infectious."

The Newport gamble was the first in a series of bold investments, often in communities hurt by decades of economic decline. An unsuccessful swoop on Britain's biggest steelworks, the Port Talbot plant owned by Tata, did not deter Mr Gupta from pursuing more deals.

The problems of the UK steel sector, in particular high energy costs, led the businessman to conceive an industrial philosophy he calls "green metal" that underpins the series of acquisitions.

The model advocates using renewable energy to power furnaces and smelters that recycle locally sourced scrap, with the finished metal then fed to manufacturing businesses that produce high-value components and goods. The idea is to make the entire process environmentally and economically sustainable, by creating a virtuous loop that reduces waste, pollution and costs.

"We're trying to capture the value through the supply chain," said Mr Gupta. "We get a cheaper raw material for our core manufacturing business, but the power business also gets a reliable in-house customer and then is able to go out to the market as well."

What makes GFG different to traditional conglomerates, said Mr Gupta, is its "integrated but decoupled" approach. Each operating business is standalone and independent, sharing some core functions at the group level, but not bound to trade with sister units.

Despite scepticism about whether an inexperienced newcomer can turn round assets that heavyweights like Tata and ArcelorMittal could not make work, Liberty said many facilities, such as the Newport mill, are now profitable.

On the wall of Liberty House's offices, down a side street in London's Mayfair, are photographs of Mr Gupta alongside public figures such as UK prime minister Theresa May and Prince Charles.

Despite this penchant for publicity, a veil of mystery hangs over GFG Alliance. There are no consolidated accounts, since GFG is not a legal entity, but rather a complex international assortment of privately owned companies.

At the top sits Liberty House Group, registered in Singapore, which holds industrials and metals businesses. Alongside it is Hong Kong-based Simec Group — an acronym for shipping, infrastructure, mining, energy and commodities — owned by the entrepreneur's father Parduman Gupta.

Different ways to invest

GFG said it has spent roughly $2bn on deals and capital expenditure in the past few years. Initial seed capital came from Liberty House's commodities trading business, in addition to $180m from the sale of a property portfolio that included a golf course. Some deals have been funded entirely by the group's own cash, while others have used up to 70 per cent external finance — not an uncommon level for buyouts.

"The short answer to how does Sanjeev Gupta finance this stuff? With a load of debt," said one former employee. "Virtually all of the finance is secured against underlying assets."

However, GFG insists that until now it has not used "traditional" long-term debt and will do so only for the first time to fund its $500m purchase of Europe's largest aluminium smelter, based in Dunkirk, from Rio Tinto.

GFG entities typically arrange finance at the company level, through both conventional and more creative methods, for investment and day-to-day operations. Among the more typical techniques are asset-backed lending facilities with banks such as ABN Amro; in effect, loans secured against tangible assets like machinery.

The Gupta family also has its own bank, Wyelands, based at Liberty's Mayfair head office. It specialises in "receivables finance", where a company sells invoices at a discount for upfront cash; and "supply chain finance", when a company's suppliers pay a small fee to a bank for early payment. Although the bank is independent, Wyelands' annual report said GFG has been an "important source of business introductions".

The purchase of a second lending institution — the UK branch of Nigeria's Diamond Bank — is still awaiting regulatory approval. GFG hopes it will support British trade with emerging economies.

As GFG has grown, a vital source of finance has proved to be Greensill Capital, a seven-year-old London-based specialist in working capital finance, which arranges bonds for companies and sells them on to institutional investors. It is led by Lex Greensill, a former Morgan Stanley and Citi banker who was an adviser to former UK prime minister David Cameron.

Greensill has issued $2.8bn worth of notes on behalf of Mr Gupta's family companies, according to public documents, though GFG said that figure is "not current" as it regularly issues and repays bonds.

Greensill's financial alchemy has created cash today for GFG out of revenues that will not land for years to come. One innovative deal helped fund Mr Gupta's purchase of the UK's last aluminium smelter in Lochaber, Scotland, together with two nearby hydropower plants from Rio Tinto in 2016.

As part of the transaction, the Scottish government agreed to stand behind the smelter's electricity purchases for 25 years. The Simec subsidiary owning the hydro-stations then sold this state-backed power purchase agreement on to Greensill in return for upfront cash. Based on this stream of payments, Greensill issued £295m of bonds that were awarded a sovereign-grade credit rating by Moody's, bringing down the cost of borrowing.

Both Liberty House and Greensill declined to comment on the specifics of their dealings.

Sanjeev Gupta with steel from a plant in Ostrava, Czech Republic, which his group has agreed to buy. Below: an employee at the Lochaber aluminium smelter in Scotland

FT montage; Bloomberg

Strains of expansion

The perception that GFG might now be struggling for funds was fuelled in recent weeks after Mr Gupta turned to rival traders to ask for some $160m in loans linked to his acquisition of the Dunkirk smelter.

Industry participants described the move as unusual, since banks normally provide that kind of credit.

What raised suspicions was the timing of the approach. It came just as GAM was unwinding investment funds with $7.3bn of assets, which held hundreds of millions of dollars worth of debt securities, many of them illiquid or hard to sell, linked to GFG companies. This sparked speculation that Liberty was seeking other sources of capital after an important door had closed shut.

Asked for more details about its financings through Greensill's securitisation vehicles, Liberty House said there were "big numbers" of other holders of the long-term notes issued by Greensill, but declined to comment on the scale of the borrowing.

A spokesperson said at the time that some of the funds Liberty was seeking from third-party traders were "normal inventory financing" for alumina supplies. The company labelled as "untrue" the notion that traditional finance channels were blocked.

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Last week, Liberty said it had secured committed financing for the Dunkirk smelter deal "with a syndicate of major international banks". However, it declined to name the lenders or disclose whether any traders were involved.

Liberty's reopening in 2016 of Scotland's Dalzell mill, which turns steel slabs into plate, was made possible by a £7m loan from the Scottish government on commercial terms.

The first year did not go smoothly, according to former employees speaking on condition of anonymity. They described an operation that lacked cash and often struggled to pay suppliers or even source raw materials, sometimes leading to halts in production.

Trains loaded with slabs from British Steel in northern England were on occasion cancelled because payment was not made on time, they said. For the same reason, a seaborne shipment once remained stuck at port for a period and there were delays in customer deliveries through haulage firms.

Mr Gupta denied that the Scottish mill had any serious issues with its suppliers and said it was now profitable.

Since GFG businesses are structured independently, "they have to operate within their own means", he added.

The GFG Alliance's model will be tested on several fronts. The first will be its ability to carry on funding investments, such as its agreed purchase of several steelworks in mainland Europe from ArcelorMittal that will double its capacity. Another will be juggling the demands of a growing empire across multiple industries and continents.

But perhaps the biggest challenge will be when GFG subsidiaries face downturns. Although the standalone nature of each business might prevent contagion spreading if one falls into distress, in reality there are financial links and obligations between some units, according to people who have worked for GFG.

"There's a fair few parental company guarantees [and] even personal guarantees floating around," said one former employee.

Mr Gupta is resolute when asked whether he would stand behind ailing businesses. "In the 26 years Liberty has been running it's never closed a business, never lost money," he said. "There is no politics here of fair weather."

Additional reporting by Henry Sanderson, Neil Hume, Robert Smith and Paul Murphy

A worker at Liberty House's steel mill rolling complex in Newport, south Wales

Speed read

Capturing value Sanjeev Gupta's deals reflect his 'green metal' philosophy for the industrial supply chain

Upfront finance Via companies such as Greensill, GFG has generated funds based on future revenues

New demands GFG's ability to fund its strategy will be tested by the deal for ArcelorMittal's European facilities